Supreme Court, U.S.
FILED
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No. 94-

IN THE

Supreme Court of the United States

OCTOBER TERM, 1994

KELLEY COMPANY, INC.,

Petitioner,

v.

RITE-HITE CORPORATION ET AL.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

APPENDIX

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20 pp

United States Court of Appeals for the Federal Circuit

Nos. 92-1206,-1260

RITE-HITE CORPORATION, ACME DOCK SPECIALISTS, INC., ALLIED EQUIPMENT CORP., APPLIED HANDLING, INC., ANDERSON MATERIAL HANDLING CO., BLOCK-DICKSON, INC., ROBERT LUND d/b/a/ HMH COMPANY, HOJ ENGINEERING & SALES CO., INC., JOHNSON EQUIPMENT CO., JOHNL & ASSOCIATES, INC., KELLER EQUIPMENT CO., INC., LOADING DOCK EQUIPMENT, INC., METRO DOCK SPECIALISTS, INC., MCCORMICK EQUIPMENT COMPANY, INC., MID-SOUTH DOCK SYSTEMS, INC., HARRY MONOHAN, NIEHAUS INDUSTRIAL SALES, INC., NORTHWAY MATERIAL HANDLING CO., INC., PEMCO MATERIAL HANDLING, INC., R.B. CURLIN, INC., RICE EQUIPMENT COMPANY, STOKES EQUIPMENT COMPANY, INC., ROBERT SOPER LIMITED, TIMBERS & ASSOCIATES, INC., TODD EQUIPMENT CORPORATION, THAYER SYSTEMS, INC., and W.E. CARLSON CORPORATION,

Plaintiffs/Cross-Appellants,

v.

KELLEY COMPANY, INC.,

Defendant-Appellant.

DECIDED: June 15, 1995

Before ARCHER, *Chief Judge*, SMITH, *Senior Circuit Judge*, and RICH, NIES, NEWMAN, MAYER, MICHEL, PLAGER, LOURIE, CLEVENGER, RADER, and SCHALL, *Circuit Judges*.[1]

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[1] Circuit Judge Bryson joined the Federal Circuit on October 7, 1994, but has not participated in the disposition of this appeal.

Opinion of the court filed by *Circuit Judge* LOURIE, in which *Circuit Judges* RICH, MICHEL, PLAGER, CLEVENGER, and SCHALL join; *Chief Judge* ARCHER, *Senior Circuit Judge* SMITH, and *Circuit Judges* NIES and MAYER join as to part AIII; and *Circuit Judges* NEWMAN and RADER join as to parts AI and B. *Circuit Judge* NIES filed an opinion, joined by *Chief Judge* ARCHER, *Senior Circuit Judge* SMITH, and *Circuit Judge* MAYER, dissenting as to parts AI and AIV and concurring in result as to part AII. *Circuit Judge* NEWMAN filed an opinion, joined by *Circuit Judge* RADER, concurring in part as to part AIV and dissenting as to parts AII and AIII.

Kelley Company appeals from a decision of the United States District Court for the Eastern District of Wisconsin, awarding damages for the infringement of U.S. Patent 4,373,847, owned by Rite-Hite Corporation. *Rite-Hite Corp. v. Kelley Co.*, 774 F. Supp. 1514, 21 USPQ2d 1801 (E.D. Wis. 1991). The district court determined, *inter alia*, that Rite-Hite was entitled to lost profits for lost sales of its devices that were in direct competition with the infringing devices, but which themselves were not covered by the patent in suit. The appeal has been taken *in banc* to determine whether such damages are legally compensable under 35 U.S.C. § 284. We affirm in part, vacate in part, and remand.

BACKGROUND

On March 22, 1983, Rite-Hite sued Kelley, alleging that Kelley's "Truk Stop" vehicle restraint infringed Rite-Hite's U.S. Patent 4,373,847 ("the '847 patent").[2] The '847 patent, issued

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[2] Claim 1 of the patent reads:

A releasable locking device for securing a parked vehicle to an adjacent relatively stationary upright structure, said device comprising a first means mountable on an exposed surface of the structure, a second means mounted on said first means for substantially vertical movement relative thereto between operative and inoperative modes, the location of said second means when in an inoperative mode being a predetermined distance beneath the location of said

February 15, 1983, is directed to a device for securing a vehicle to a loading dock to prevent the vehicle from separating from the dock during loading or unloading. Any such separation would create a gap between the vehicle and dock and create a danger for a forklift operator.

Rite-Hite distributed all its products through its wholly-owned and operated sales organizations and through independent sales organizations (ISOs). During the period of infringement, the Rite-Hite sales organizations accounted for approximately 30 percent of the retail dollar sales of Rite-Hite products, and the ISOs accounted for the remaining 70 percent. Rite-Hite sued for its lost profits at the wholesale level and for the lost retail profits of its own sales organizations. Shortly after this action was filed, several ISOs moved to intervene, contending that they were "exclusive licensees" of the '847 patent by virtue of "Sales Representative Agreements" and "Dok-Lok Supplement" agreements between themselves and Rite-Hite. The court determined that the ISOs were exclusive licensees and accordingly, on August 31, 1984, permitted them to intervene.[3] The ISOs sued for their lost retail profits.

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second means when in an operative mode and in non-contacting relation with the vehicle, and third means for releasably retaining said second means in an operative mode; said second means including a first section projecting outwardly a predetermined distance from said first means and the exposed surface of the structure, one end of said first section being mounted on said first means for selective independent movement relative thereto along a predetermined substantially vertical path, and a second section extending angularly upwardly from said first section and being spaced outwardly a substantially fixed distance from said first means and the exposed surface of the structure, said second means, when in an operative mode, being adapted to interlockingly engage a portion of the parked vehicle disposed intermediate the second section and said first means; said second means, when in an inoperative mode, being adapted to be in a lowered nonlocking relation with the parked vehicle.

[3] On February 15, 1989, seven ISOs that had not yet intervened brought a separate action, *Block-Dickson, Inc. v. Kelley Co.*, Case No. 89-C-0190 (E.D. Wis. Feb. 15, 1989), which was consolidated with Rite-Hite's action by stipulation of the parties.

The district court bifurcated the liability and damage phases of the trial and, on March 5, 1986, held the '847 patent to be not invalid and to be infringed by the manufacture, use, and sale of Kelley's Truk Stop device. The court enjoined further infringement. *Rite-Hite Corp. v. Kelley Co.*, 629 F. Supp. 1042, 231 USPQ 161 (E.D. Wis. 1986). The judgment of liability was affirmed by this court. *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 2 USPQ2d 1915 (Fed. Cir. 1987).

On remand, the damage issues were tried to the court. *Rite-Hite*, 774 F. Supp. at 1514, 21 USPQ2d at 1801. Rite-Hite sought damages calculated as lost profits for two types of vehicle restraints that it made and sold: the "Manual Dok-Lok" model 55 (MDL-55), which incorporated the invention covered by the '847 patent, and the "Automatic Dok-Lok" model 100 (ADL-100), which was not covered by the patent in suit. The ADL-100 was the first vehicle restraint Rite-Hite put on the market and it was covered by one or more patents other than the patent in suit. The Kelley Truk Stop restraint was designed to compete primarily with Rite-Hite's ADL-100. Both employed an electric motor and functioned automatically, and each sold for $1,000-$1,500 at the wholesale level, in contrast to the MDL-55, which sold for one-third to one-half the price of the motorized devices. Rite-Hite does not assert that Kelley's Truk Stop restraint infringed the patents covering the ADL-100.

Of the 3,825 infringing Truk Stop devices sold by Kelley, the district court found that, "but for" Kelley's infringement, Rite-Hite would have made 80 more sales of its MDL-55; 3,243 more sales of its ADL-100; and 1,692 more sales of dock levelers, a bridging platform sold with the restraints and used to bridge the edges of a vehicle and dock. The court awarded Rite-Hite as a manufacturer the wholesale profits that it lost on lost sales of the ADL-100 restraints, MDL-55 restraints, and restraint-leveler packages. It also awarded to Rite-Hite as a retailer and to the ISOs reasonable royalty damages on lost ADL-100, MDL-55, and

restraint-leveler sales caused by Kelley's infringing sales. Finally, prejudgment interest, calculated without compounding, was awarded. Kelley's infringement was found to be not willful.

On appeal, Kelley contends that the district court erred as a matter of law in its determination of damages. Kelley does not contest the award of damages for lost sales of the MDL-55 restraints; however, Kelley argues that (1) the patent statute does not provide for damages based on Rite-Hite's lost profits on ADL-100 restraints because the ADL-100s are not covered by the patent in suit; (2) lost profits on unpatented dock levelers are not attributable to demand for the '847 invention and, therefore, are not recoverable losses; (3) the ISOs have no standing to sue for patent infringement damages; and (4) the court erred in calculating a reasonable royalty based as a percentage of ADL-100 and dock leveler profits. Rite-Hite and the ISOs challenge the district court's refusal to award lost retail profits and its award of prejudgment interest at a simple, rather than a compound, rate.

We affirm the damage award with respect to Rite-Hite's lost profits as a manufacturer on its ADL-100 restraint sales, affirm the court's computation of a reasonable royalty rate, vacate the damage award based on the dock levelers, and vacate the damage award with respect to the ISOs because they lack standing. We remand for dismissal of the ISOs' claims and for a redetermination of damages consistent with this opinion. The issues raised by Rite-Hite are unpersuasive.

DISCUSSION

Because the technology, the '847 patent, and the history of the parties and their litigation are fully described in the opinions of the district court and that of the earlier panel of our court that affirmed the liability judgment, we will discuss the facts only to the extent necessary to discuss the issues raised in this appeal.

In order to prevail on appeal on an issue of damages, an appellant must convince us that the determination was based on an erroneous conclusion of law, clearly erroneous factual findings, or a clear error of judgment amounting to an abuse of discretion. *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1542, 3 USPQ2d 1412, 1415 (Fed. Cir. 1987); *see also SmithKline Diagnostics, Inc. v. Helena Lab. Corp.*, 926 F.2d 1161, 1163-65 & n.2, 17 USPQ2d 1922, 1924-25 & n.2 (Fed. Cir. 1991).

A.
Kelley's Appeal

I. Lost Profits on the ADL-100 Restraints

The district court's decision to award lost profits damages pursuant to 35 U.S.C. § 284 turned primarily upon the quality of Rite-Hite's proof of actual lost profits. The court found that, "but for" Kelley's infringing Truk Stop competition, Rite-Hite would have sold 3,243 additional ADL-100 restraints and 80 additional MDL-55 restraints. The court reasoned that awarding lost profits fulfilled the patent statute's goal of affording complete compensation for infringement and compensated Rite-Hite for the ADL-100 sales that Kelley "anticipated taking from Rite-Hite when it marketed the Truk Stop against the ADL-100." *Rite-Hite*, 774 F. Supp. at 1540, 21 USPQ2d at 1821. The court stated, "[t]he rule applied here therefore does not extend Rite-Hite's patent rights excessively, because Kelley could reasonably have foreseen that its infringement of the '847 patent would make it liable for lost ADL-100 sales in addition to lost MDL-55 sales." *Id.* The court further reasoned that its decision would avoid what it referred to as the "whip-saw" problem, whereby an infringer could avoid paying lost profits damages altogether by developing a device using a first patented technology to compete with a device that uses a second patented technology and developing a device using the second

patented technology to compete with a device that uses the first patented technology.

Kelley maintains that Rite-Hite's lost sales of the ADL-100 restraints do not constitute an injury that is legally compensable by means of lost profits. It has uniformly been the law, Kelley argues, that to recover damages in the form of lost profits a patentee must prove that, "but for" the infringement, it would have sold a product covered by the patent in suit to the customers who bought from the infringer. Under the circumstances of this case, in Kelley's view, the patent statute provides only for damages calculated as a reasonable royalty. Rite-Hite, on the other hand, argues that the only restriction on an award of actual lost profits damages for patent infringement is proof of causation-in-fact. A patentee, in its view, is entitled to all the profits it would have made on any of its products "but for" the infringement. Each party argues that a judgment in favor of the other would frustrate the purposes of the patent statute. Whether the lost profits at issue are legally compensable is a question of law, which we review *de novo*.

Our analysis of this question necessarily begins with the patent statute. *See General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653-54 (1983). Implementing the constitutional power under Article I, section 8, to secure to inventors the exclusive right to their discoveries, Congress has provided in 35 U.S.C. § 284 as follows:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

35 U.S.C. § 284 (1988). The statute thus mandates that a claimant receive damages "adequate" to compensate for infringement. Section 284 further instructs that a damage award shall be "in no event less than a reasonable royalty"; the purpose of this alternative

is not to direct the form of compensation, but to set a floor below which damage awards may not fall. *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1326, 5 USPQ2d 1255, 1260 (Fed. Cir. 1987). Thus, the language of the statute is expansive rather than limiting. It affirmatively states that damages must be adequate, while providing only a lower limit and no other limitation.

The Supreme Court spoke to the question of patent damages in *General Motors*, stating that, in enacting § 284, Congress sought to "ensure that the patent owner would in fact receive full compensation for 'any damages' [the patentee] suffered as a result of the infringement." *General Motors*, 461 U.S. at 654; *See also* H.R. Rep. No. 1587, 79th Cong., 2d Sess., 1 (1946) (the Bill was intended to allow recovery of "any damages the complainant can prove"); S. Rep. No. 1503, 79th Cong., 2d Sess., 2 (1946) (same). Thus, while the statutory text states tersely that the patentee receive "adequate" damages, the Supreme Court has interpreted this to mean that "adequate" damages should approximate those damages that will *fully compensate* the patentee for infringement. Further, the Court has cautioned against imposing limitations on patent infringement damages, stating: "When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." *General Motors*, 461 U. S. at 653 (refusing to impose limitation on court's authority to award interest).

In *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 141 USPQ 681 (1964), the Court discussed the statutory standard for measuring patent infringement damages, explaining:

> The question to be asked in determining damages is "how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the Infringer not infringed, what would the Patentee Holder — Licensee have made?"

377 U.S. at 507, 141 USPQ at 694 (plurality opinion) (citations omitted). This surely states a "but for" test. In accordance with the Court's guidance, we have held that the general rule for determining actual damages to a patentee that is itself producing the patented item is to determine the sales and profits lost to the patentee because of the infringement. *Del Mar*, 836 F.2d at 1326, 5 USPQ2d at 1260; *see State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577, 12 USPQ2d 1026, 1028 (Fed. Cir. 1989), *cert. denied*, 493 U.S. 1022 (1990) (award of damages may be split between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder). To recover lost profits damages, the patentee must show a reasonable probability that, "but for" the infringement, it would have made the sales that were made by the infringer. *Id.*; *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 863, 226 USPQ 402, 409 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).

Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 197 USPQ 726 (6th Cir. 1978), articulated a four-factor test that has since been accepted as a useful, but non-exclusive, way for a patentee to prove entitlement to lost profits damages. *State Indus.*, 883 F.2d at 1577, 12 USPQ2d at 1028. The *Panduit* test requires that a patentee establish: (1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) manufacturing and marketing capability to exploit the demand; and (4) the amount of the profit it would have made. *Panduit*, 575 F.2d at 1156, 197 USPQ at 730. A showing under *Panduit* permits a court to reasonably infer that the lost profits claimed were in fact caused by the infringing sales, thus establishing a patentee's *prima facie* case with respect to "but for" causation. *Kaufman Co. v. Lantech, Inc.*, 926 F.2d 1136, 1141, 17 USPQ2d 1828, 1831 (Fed. Cir. 1991). A patentee need not negate every possibility that the purchaser might not have purchased a product other than its own, absent the infringement. *Id.* The patentee need only show that there was a reasonable probability that the sales would have been

made "but for" the infringement. When the patentee establishes the reasonableness of this inference, *e.g.*, by satisfying the *Panduit* test, it has sustained the burden of proving entitlement to lost profits due to the infringing sales. *Id.* at 1141, 17 USPQ2d at 1832. The burden then shifts to the infringer to show that the inference is unreasonable for some or all of the lost sales. *Id.*

Applying *Panduit*, the district court found that Rite-Hite had established "but for" causation. In the court's view, this was sufficient to prove entitlement to lost profits damages on the ADL-100. Kelley does not challenge that Rite-Hite meets the *Panduit* test and therefore has proven "but for" causation; rather, Kelley argues that damages for the ADL-100, even if in fact caused by the infringement, are not legally compensable because the ADL-100 is not covered by the patent in suit.

Preliminarily, we wish to affirm that the "test" for compensability of damages under § 284 is not solely a "but for" test in the sense that an infringer must compensate a patentee for any and all damages that proceed from the act of patent infringement. Notwithstanding the broad language of § 284, judicial relief cannot redress every conceivable harm that can be traced to an alleged wrongdoing. *See Associated General Contractors, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 536 (1983).[4] For example, remote consequences, such as a heart attack of the

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[4] As succinctly summarized by Keeton *et al.*:

> In a philosophical sense, the consequences of an act go forward to eternity, and the causes of an event go back to the dawn of human events, and beyond. But any attempt to impose responsibility upon such a basis would result in infinite liability for all wrongful acts, and would "set society on edge and fill the courts with endless litigation." As a practical matter, legal responsibility must be limited to those causes which are so closely connected with the result and of such significance that the law is justified in imposing liability. Some boundary must be set to liability for the consequences of any act, upon the basis of some social idea of justice or policy.
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> W. Page Keeton *et al.*, *Prosser & Keeton on the Law of Torts* § 41, at 264 (5th ed. 1984) (citation and footnote omitted).

inventor or loss in value of shares of common stock of a patentee corporation caused indirectly by infringement are not compensable. Thus, along with establishing that a particular injury suffered by a patentee is a "but for" consequence of infringement, there may also be a background question whether the asserted injury is of the type for which the patentee may be compensated.

Judicial limitations on damages, either for certain classes of plaintiffs or for certain types of injuries have been imposed in terms of "proximate cause" or "foreseeability." *See Consolidated Rail Corp. v. Gottshall*, 114 S. Ct. 2396, 2406 (1994). Such labels have been judicial tools used to limit legal responsibility for the consequences of one's conduct that are too remote to justify compensation. *See Holmes v. Securities Investor Protection Corp.*, 503 U.S. 258 (1992). The general principles expressed in the common law tell us that the question of legal compensability is one "to be determined on the facts of each case upon mixed considerations of logic, common sense, justice, policy and precedent." *See* 1 Street, *Foundations of Legal Liability* 110 (1906) (quoted in W. Page Keeton *et al.*, *Prosser & Keeton on the Law of Torts* § 42, at 279 (5th ed. 1984)).[5]

We believe that under § 284 of the patent statute, the balance between full compensation, which is the meaning that the Supreme Court has attributed to the statute, and the reasonable limits of liability encompassed by general principles of law can best be viewed in terms of reasonable, objective foreseeability. If a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to

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[5] After an explication of established patent law principles, the partial dissent of Judge Nies ultimately agrees that there are judicial limitations on damages; the dissent simply disagrees that the damages sought here fall within those limitations, concluding instead that the damages are too "remote." The dissent's disagreement thus centers not on whether lines are drawn regarding the compensability of damages, but only on where those lines are to be drawn.

the contrary. Here, the court determined that Rite-Hite's lost sales of the ADL-100, a product that directly competed with the infringing product, were reasonably foreseeable. We agree with that conclusion. Being responsible for lost sales of a competitive product is surely foreseeable; such losses constitute the full compensation set forth by Congress, as interpreted by the Supreme Court, while staying well within the traditional meaning of proximate cause. Such lost sales should therefore clearly be compensable.

Recovery for lost sales of a device not covered by the patent in suit is not of course expressly provided for by the patent statute. Express language is not required, however. Statutes speak in general terms rather than specifically expressing every detail. Under the patent statute, damages should be awarded "where necessary to afford the plaintiff full compensation for the infringement." *General Motors*, 461 U.S. at 654. Thus, to refuse to award reasonably foreseeable damages necessary to make Rite-Hite whole would be inconsistent with the meaning of § 284.

Kelley asserts that to allow recovery for the ADL-100 would contravene the policy reason for which patents are granted: "[T]o promote the progress of . . . the useful arts." U.S. Const., art. 1, § 8, cl. 8. Because an inventor is only entitled to exclusivity to the extent he or she has invented and disclosed a novel, nonobvious, and useful device, Kelley argues, a patent may never be used to restrict competition in the sale of products not covered by the patent in suit. In support, Kelley cites antitrust case law condemning the use of a patent as a means to obtain a "monopoly" on unpatented material. *See, e.g., Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 459 (1940) ("The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another than for the exploitation of an unpatented article, or for the exploitation or promotion of a business not embraced within the patent."); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 463 (1938) ("[E]very use of a patent as a means of

obtaining a limited monopoly on unpatented material is prohibited . . . whatever the nature of the device by which the owner of the patent seeks to effect unauthorized extension of the monopoly.").

These cases are inapposite to the issue raised here. The present case does not involve expanding the limits of the patent grant in violation of the antitrust laws; it simply asks, once infringement of a valid patent is found, what compensable injuries result from that infringement, *i.e.*, how may the patentee be made whole. Rite-Hite is not attempting to exclude its competitors from making, using, or selling a product not within the scope of its patent. The Truk Stop restraint was found to infringe the '847 patent, and Rite-Hite is simply seeking adequate compensation for that infringement; this is not an antitrust issue. Allowing compensation for such damage will "promote the Progress of . . . the useful Arts" by providing a stimulus to the development of new products and industries. *See* 1 Ernest B. Lipscomb III, *Walker on Patents* 65 (3d ed. 1984) (quoting Simonds, *Summary of the Law of Patents* 9 (1883)) ("The patent laws promote the progress in different ways, prominent among which are by protecting the investment of capital in the development and working of a new invention from ruinous competition till the investment becomes remunerative.").[6]

Kelley further asserts that, as a policy matter, inventors should be encouraged by the law to practice their inventions. This is not a meaningful or persuasive argument, at least in this context. A patent is granted in exchange for a patentee's disclosure of an invention, not for the patentee's use of the invention. There is no requirement in this country that a patentee make, use, or sell its patented invention. *See Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 424-30 (1908) (irrespective of a patentee's own use of its patented invention, it may enforce its

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[6] The partial dissent of Judge Nies appears to confuse exclusion under a patent of a product that comes within the scope of the claims with the determination of damages to redress injury caused by patent infringement once infringement has been found.

rights under the patent). If a patentee's failure to practice a patented invention frustrates an important public need for the invention, a court need not enjoin infringement of the patent. *See* 35 U.S.C. § 283 (1988) (courts may grant injunctions in accordance with the principles of equity). Accordingly, courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest. *See, e.g., Hybritech, Inc. v. Abbott Lab.*, 4 USPQ2d 1001 (C.D. Cal. 1987) (public interest required that injunction not stop supply of medical test kits that the patentee itself was not marketing), *aff'd*, 849 F.2d 1446, 7 USPQ2d 1191 (Fed. Cir. 1988); *Vitamin Technologists, Inc. v. Wisconsin Alumni Research Found.*, 64 USPQ 285 (9th Cir. 1945) (public interest warranted refusal of injunction on irradiation of oleomargarine); *City of Milwaukee v. Activated Sludge, Inc.*, 21 USPQ 69 (7th Cir. 1934) (injunction refused against city operation of sewage disposal plant because of public health danger). Whether a patentee sells its patented invention is not crucial in determining lost profits damages. Normally, if the patentee is not selling a product, by definition there can be no lost profits. However, in this case, Rite-Hite did sell its own patented products, the MDL-55 and the ADL-100 restraints.

Kelley next argues that to award lost profits damages on Rite-Hite's ADL-100s would be contrary to precedent. Citing *Panduit*, Kelley argues that case law regarding lost profits uniformly requires that "the intrinsic value of the patent in suit is the only proper basis for a lost profits award." Kelley argues that each prong of the *Panduit* test focuses on the patented invention; thus, Kelley asserts, Rite-Hite cannot obtain damages consisting of lost profits on a product that is not the patented invention.[7]

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[7] The partial dissent of Judge Nies agrees with Kelley, citing several Supreme Court decisions. However, the Supreme Court has provided no definitive ruling on the proper scope of damages to redress lost sales of diverted products such as those in this case. The dissent also relies on dicta in older district court cases; however, the issue directly before us is one of first impression in this court. Moreover, the more recent (post-1946) cases cited by the dissent do not hold

Generally, the *Panduit* test has been applied when a patentee is seeking lost profits for a device covered by the patent in suit. However, *Panduit* is not the *sine qua non* for proving "but for" causation. If there are other ways to show that the infringement in fact caused the patentee's lost profits, there is no reason why another test should not be acceptable. Moreover, other fact situations may require different means of evaluation, and failure to meet the *Panduit* test does not *ipso facto* disqualify a loss from being compensable.

In any event, the only *Panduit* factor that arguably was not met in the present fact situation is the second one, absence of acceptable non-infringing substitutes. Establishment of this factor tends to prove that the patentee would not have lost the sales to a non-infringing third party rather than to the infringer. That, however, goes only to the question of proof. Here, the only substitute for the patented device was the ADL-100, another of the patentee's devices. Such a substitute was not an "acceptable, non-infringing substitute" within the meaning of *Panduit* because, being patented by Rite-Hite, it was not available to customers except from Rite-Hite. *Cf. State Indus.*, 883 F.2d at 1578, 12 USPQ2d at 1030-31. Rite-Hite therefore would not have lost the sales to a third party. The second *Panduit* factor thus has been met. If, on the other hand, the ADL-100 had not been patented and was found to be an acceptable substitute, that would have been a different story, and Rite-Hite would have had to prove that its customers would not have obtained the ADL-100 from a third party in order to prove the second factor of *Panduit*.

Kelley's conclusion that the lost sales must be of the patented invention thus is not supported. Kelley's concern that lost profits

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that a patentee may receive damages in the form of lost profits only for diverted sales of devices covered by the patent in suit. Rather, the cases relied upon either relate to recovery for lost sales of items sold with devices covered by the patent in suit under the entire market value rule, or they stand for the unremarkable proposition that the patentee must be in the business of selling *a* device in order to recover damages for alleged lost sales of such a device.

must relate to the "intrinsic value of the patent" is subsumed in the "but for" analysis; if the patent infringement had nothing to do with the lost sales, "but for" causation would not have been proven. However, "but for" causation is conceded here. The motive, or motivation, for the infringement is irrelevant if it is proved that the infringement in fact caused the loss. We see no basis for Kelley's conclusion that the lost sales must be of products covered by the infringed patent.

Kelley has thus not provided, nor do we find, any justification in the statute, precedent, policy, or logic to limit the compensability of lost sales of a patentee's device that directly competes with the infringing device if it is proven that those lost sales were caused in fact by the infringement. Such lost sales are reasonably foreseeable and the award of damages is necessary to provide adequate compensation for infringement under 35 U.S.C. § 284. Thus, Rite-Hite's ADL-100 lost sales are legally compensable and we affirm the award of lost profits on the 3,283 sales lost to Rite-Hite's wholesale business in ADL-100 restraints.[8]

II. Damages on the Dock Levelers

Based on the "entire market value rule," the district court awarded lost profits on 1,692 dock levelers that it found Rite-Hite would have sold with the ADL-100 and MDL-55 restraints. Kelley

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[8] The partial dissent of Judge Nies makes much of the fact that Rite-Hite could not mark its ADL-100 restraints with notice of the '847 patent, cautioning, "[t]o hold that a patentee may recover damages respecting injury to its business in products that do not embody the invention which are unmarked or marked with a different patent number would treat a patentee that does not practice its invention more favorably than a patentee that does. The marking statute generates absurd results when applied to damages tied to products not made under the patent in suit." We disagree. The marking statute provides that if a product is not marked, no damages shall be recovered by the patentee except on proof that the infringer was notified of the infringement. *See* 35 U.S.C. § 287(a) (1988). That a patentee cannot recover damages in the absence of actual notice when it has not marked remains the law, but that law does not preclude assessing damages for lost sales of diverted products *after* actual notice of infringement has been given.

argues that this award must be set aside because Rite-Hite failed to establish that the dock levelers were eligible to be included in the damage computation under the entire market value rule. We agree.

When a patentee seeks damages on unpatented components sold with a patented apparatus, courts have applied a formulation known as the "entire market value rule" to determine whether such components should be included in the damage computation, whether for reasonable royalty purposes,[9] *see Leesona Corp. v. United States*, 599 F.2d 958, 974, 202 USPQ 424, 439 (Ct. Cl., *cert. denied*, 444 U.S. 991 (1979), or for lost profits purposes, *see Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 23, 223 USPQ 591, 599 (Fed. Cir. 1984). Early cases invoking the entire market value rule required that for a patentee owning an "improvement patent" to recover damages calculated on sales of a larger machine incorporating that improvement, the patentee was required to show that the entire value of the whole machine, as a marketable article, was "properly and legally attributable" to the patented feature. *See Garretson v. Clark*, 111 U.S. 120, 121 (1884); *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615 (1912) (same). Subsequently, our predecessor court held that damages for component parts used with a patented apparatus were recoverable under the entire market value rule if the patented apparatus "was of such paramount importance that it substantially created the value of the component parts." *Marconi Wireless Telegraph Co. v. United States*, 53 USPQ 246, 250 (Ct. Cl. 1942), *aff'd in part and vacated in part*, 320 U.S. 1 (1943). We have held that the entire market value rule permits recovery of damages based on the value of a patentee's entire apparatus containing several features when the patent-related feature is the "basis for customer demand." *State Indus.*, 883 F.2d

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[9] This issue of royalty base is not to be confused with the relevance of anticipated collateral sales to the determination of a reasonable royalty rate. *See Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 1559, 218 USPQ 481, 487 (Fed. Cir. 1983); *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568, 224 USPQ 259, 269-70 (Fed. Cir. 1984).

at 1580, 12 USPQ2d at 1031; *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 900-01, 229 USPQ 525, 528 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986).

The entire market value rule has typically been applied to include in the compensation base unpatented components of a device when the unpatented and patented components are physically part of the same machine. *See, e.g., Western Elec. Co. v. Stewart-Warner Corp.*, 631 F.2d 333, 208 USPQ 183 (4th Cir. 1980), *cert. denied*, 450 U.S. 971 (1981). The rule has been extended to allow inclusion of physically separate unpatented components normally sold with the patented components. *See, e.g., Paper Converting*, 745 F.2d at 23, 223 USPQ at 599. However, in such cases, the unpatented and patented components together were considered to be components of a single assembly or parts of a complete machine, or they together constituted a functional unit. *See, e.g., Velo-Bind, Inc. v. Minnesota Mining & Mfg. Co.*, 647 F.2d 965, 211 USPQ 926 (9th Cir.), *cert. denied*, 454 U.S. 1093 (1981).

In *Paper Converting*, this court articulated the entire market value rule in terms of the objectively reasonable probability that a patentee would have made the relevant sales. *See* 745 F.2d at 23, 223 USPQ at 599-600. Furthermore, we may have appeared to expand the rule when we emphasized the financial and marketing dependence of the unpatented component on the patented component. *See id.* In *Paper Converting*, however, the rule was applied to allow recovery of profits on the unpatented components only because all the components together were considered to be parts of a single assembly. The references to "financial and marketing dependence" and "reasonable probability" were made in the context of the facts of the case and did not separate the rule from its traditional moorings.

Specifically, recovery was sought for the lost profits on sales of an entire machine for the high speed manufacture of paper rolls comprising several physically separate components, only one of

which incorporated invention. The machine was comprised of the patented "rewinder" component and several auxiliary components, including an "unwind stand" that supported a large roll of supply paper to the rewinder, a "core loader" that supplied paperboard cores to the rewinder, an "embosser" that embossed the paper and provided a special textured surface, and a "tail sealer" that sealed the paper's trailing end to the finished roll. Although we noted that the auxiliary, components had "separate usage" in that they each separately performed a part of an entire rewinding operation, the components together constituted one functional unit, including the patented component, to produce rolls of paper. The auxiliary components derived their market value from the patented rewinder because they had no useful purpose independent of the patented rewinder.

Similarly, our subsequent cases have applied the entire market value rule only in situations in which the patented and unpatented components were analogous to a single functioning unit. *See, e.g., Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1485, 16 USPQ2d 1093, 1102 (Fed. Cir. 1990) (affirming award of damages for filter screens used with a patented filtering device); *TWM*, 789 F.2d at 901, 229 USPQ at 528 (affirming award of damages for unpatented wheels and axles sold with patented vehicle suspension system); *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649, 656, 225 USPQ 985, 989 (Fed. Cir.) (affirming an award of damages for unpatented uppers of an improved amphibious vehicle having a patented pontoon structure), *cert. denied*, 474 U.S. 902 (1985).

Thus, the facts of past cases clearly imply a limitation on damages, when recovery is sought on sales of unpatented components sold with patented components, to the effect that the unpatented components must function together with the patented component in some manner so as to produce a desired end product or result. All the components together must be analogous to components of a single assembly or be parts of a complete

machine, or they must constitute a functional unit. Our precedent has not extended liability to include items that have essentially no functional relationship to the patented invention and that may have been sold with an infringing device only as a matter of convenience or business advantage. We are not persuaded that we should extend that liability. Damages on such items would constitute more than what is "adequate to compensate for the infringement."

The facts of this case do not meet this requirement. The dock levelers operated to bridge the gap between a loading dock and a truck. The patented vehicle restraint operated to secure the rear of the truck to the loading dock. Although the two devices may have been used together, they did not function together to achieve one result and each could effectively have been used independently of each other. The parties had established positions in marketing dock levelers long prior to developing the vehicle restraints. Rite-Hite and Kelley were pioneers in that industry and for many years were primary competitors. Although following Rite-Hite's introduction of its restraints onto the market, customers frequently solicited package bids for the simultaneous installation of restraints and dock levelers, they did so because such bids facilitated contracting and construction scheduling, and because both Rite-Hite and Kelley encouraged this linkage by offering combination discounts. The dock levelers were thus sold by Kelley with the restraints only for marketing reasons, not because they essentially functioned together. We distinguish our conclusion to permit damages based on lost sales of the unpatented (not covered by the patent in suit) ADL-100 devices, but not on lost sales of the unpatented dock levelers, by emphasizing that the Kelley Truk Stops were devices competitive with the ADL-100s, whereas the dock levelers were merely items sold together with the restraints for convenience and business advantage. It is a clear purpose of the patent law to redress competitive damages resulting from infringement of the patent, but there is no basis for extending that recovery to include damages for items that are neither competitive with nor

function with the patented invention. Promotion of the useful arts, *see* U.S. Const., art. I, § 8, cl. 8, requires one, but not the other. These facts do not establish the functional relationship necessary to justify recovery under the entire market value rule. Therefore, the district court erred as a matter of law in including them within the compensation base. Accordingly, we vacate the court's award of damages based on the dock leveler sales.

III. Standing of the ISOs

The ISOs asserted claims for patent infringement under 35 U.S.C § 281 as co-plaintiffs with Rite-Hite and were awarded damages calculated on the basis of a reasonable royalty at the retail level on both restraints and dock levelers, based on the number of sales each asserted it lost to Kelley. Kelley challenges any award of damages to the ISOs on the ground that the ISOs had no standing to seek recovery for patent infringement. The ISOs argue that the exclusivity of their sales territories gave them standing as "exclusive licensees." The question of standing to sue is a jurisdictional one, *Imperial Tobacco, Ltd. v. Philip Morris, Inc.*, 899 F. 2d 1575, 1580 n.7, 14 USPQ2d 1390, 1393 n.7 (Fed. Cir. 1990), which we review *de novo*, *Transamerica Ins. Corp. v. United States*, 973 F.2d 1572 (Fed. Cir. 1992). We agree with Kelley that the ISOs must be dismissed for lack of standing.

The right of a patentee to a remedy for patent infringement is created by the statute, *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1578, 19 USPQ2d 1513, 1516-17 (Fed. Cir. 1991), which provides that a "patentee" shall have remedy by civil action for infringement of his or her patent, 35 U.S.C. § 281 (1988). The term "patentee" includes "not only the patentee to whom the patent was issued but also the successors in title to the patentee." 35 U.S.C. § 100(d) (1988).

Generally, one seeking money damages for patent infringement must have held legal title to the patent at the time of the infringement. *Crown Die & Tool Co. v. Nye Tool & Machine*

Works, 261 U.S. 24, 40-41 (1923). A conveyance of legal title by the patentee can be made only of the entire patent, an undivided part or share of the entire patent, or all rights under the patent in a specified geographical region of the United States. *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891). A transfer of any of these is an assignment and vests the assignee with title in the patent, and a right to sue infringers.[10] *Id.* A transfer of less than one of these three interests is a license, not an assignment of legal title, and it gives the licensee no right to sue for infringement at law in the licensee's own name. *Id.*

Under certain circumstances, a licensee may possess sufficient interest in the patent to have standing to sue as a co-plaintiff with the patentee. *See id.* (if necessary to protect the rights of all parties, the licensee may be joined as co-plaintiff); *Independent Wireless Tel. Co. v. Radio Corp. of America*, 269 U.S. 459, 468 (1926) (if the patentee refuses or is unable to join an exclusive licensee as co-plaintiff, the licensee may make him a party defendant). Such a licensee is usually an "exclusive licensee." To be an exclusive licensee for standing purposes, a party must have received, not only the right to practice the invention within a given territory, but also the patentee's express or implied promise that others shall be excluded from practicing the invention within that territory as well. *See Independent Wireless*, 269 U.S. at 468-69. If the party has not received an express or implied promise of exclusivity under the patent, *i.e.*, the right to exclude others from making, using, or selling the patented invention, the party has a "bare license," and has received only the patentee's promise that that party will not be sued for infringement. *See Western Elec. Co. v. Pacent Reproducer Corp.*, 42 F.2d 116, 118, 5 USPQ 105, 106 (2d Cir.), *cert. denied*, 282 U.S. 873 (1930).

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[10] In the first and third cases, the assignee may sue in its name alone; in the second case, it may sue jointly with the assignor. *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891).

The ISOs maintain that they are allowed to join as co-plaintiffs because each claims it has a virtually exclusive license to sell products made by Rite-Hite to particular customers in an exclusive sales territory. To determine whether the ISOs have standing to be co-plaintiffs, we look to their contracts with Rite-Hite.

The typical original ISO contract provided in pertinent part:

> Representative's right to solicit sales of the Company's products in the Territory shall be exclusive in that the company will not appoint any other sales representative in the territory so long as, in Company's good faith judgment, Representative is doing an adequate job in the entire Territory for all listed products. [If not,] Company shall have the right to reduce the Territory, if it gives Representative notice of the change. Company shall in no event be liable for any violation or infringement of Representative's territorial rights hereunder except such as are committed directly by Company. Company also reserves the non-exclusive right to make sales of its products within the Territory directly to the motor freight industry, governmental agencies, government contractors, and any other purchasers which, in Company's judgement, can be served best by direct sales.

The subject products are "All Rite-Hite Mechanical and Hydraulic Dock Levelers and Related Equipment." The word "patent" appears nowhere in this document, although, just prior to their intervention as plaintiffs, many of the ISOs executed supplements to their contracts which specified that the "products" of the Sales Representative Agreement include "products *manufactured and sold by [Rite-Hite]*" that embody "any of the claims set forth in Rite-Hite patents relating to 'Dok-Lok' devices, *including (but not by any way of limitation) U.S. Patent No. 4,373,847.*" *Rite-Hite*, 774 F. Supp. at 1523, 21 USPQ2d at 1807 (alteration in original) (first emphasis supplied). The agreement also provided that each ISO had, in addition to the right to solicit sales for Rite-Hite, the

right to sell products made by Rite-Hite. Rite-Hite reserved the right to sell its products to the motor freight industry.[11]

In the original agreement, Rite-Hite itself expressly retained substantial rights to sell within the assigned territories to specific classes of purchases and to "any other purchasers which, in Company's judgement, can be served best by direct sales." The last minute modifications on the eve of litigation included for the first time products covered by the patent in the definition of the range of products covered by the agreement, and reduced the retained rights of Rite-Hite to sell within the assigned territories. Neither the original agreements nor the modifications granted the ISOs any right to exclude others under the patent.

We agree with Kelley that the district court's conclusion that these contracts conveyed a "sufficient, legally recognized interest in the rights secured by the ['847] patent" to confer standing on the ISOs was erroneous as a matter of law. *Id.*, 774 F. Supp. at 1525, 21 USPQ2d at 1808 (alteration in original). The contracts in this case were not exclusive patent licenses. As noted, they did not mention the word "patent" until the eve of this lawsuit. The ISO contracts permitted the ISOs only to solicit and make sales of products made by Rite-Hite in a particular "exclusive" sales territory. While the agreements conveyed the right to sell restraints covered by the patent, any "exclusivity" related only to sales territories, not to patent rights. Even this sales exclusivity was conditional on Rite-Hite's judgment that the ISOs were doing an "adequate job."

Most particularly, the ISOs had no right under the agreements to exclude anyone from making, using, or selling the claimed invention. The ISO's could not exclude from their respective territories other ISOs, third parties, or even Rite-Hite itself. Any remedy an ISO might have had for violation of its rights would lie

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[11] The court found that this industry was an insignificant market for Rite-Hite's products, including its vehicle restraints.

in a breach of contract action against Rite-Hite, if the agreement was breached, not in a patent infringement action against infringers. Rite-Hite had no obligation to file infringement suits at the request of an ISO and the ISOs had no right to share in any recovery from litigation. Moreover, appellees have not contended that such obligations and rights are to be implied. Nor do appellees even argue that the ISOs had the right under their contracts to bring suit for infringement against another ISO or a third party, making Rite-Hite an involuntary plaintiff. To the contrary, under their agreement, if an ISO sold in another's territory, the profits were shared according to Rite-Hite's "split commission" rules. While the patentee and the ISOs have cooperated in this litigation, that fact alone does not establish their right to sue.

Weinar v. Rollform, 744 F.2d 797, 223 USPQ 369 (Fed. Cir. 1984), *cert. denied*, 470 U.S. 1084 (1985), which is cited by Rite-Hite in support of the ISOs' position, is not to the contrary. In that case, a damage award was upheld to a licensee with the exclusive right to sell in the entire United States. *Id.* at 807, 223 USPQ at 374. However, the exclusive licensee in *Weinar* was found to have received more than a "bare" license from the patentee. *Id.* The exclusive licensee and the patentee "shar[ed] the property rights represented by a patent." *Id.* That is not the case here. The ISOs were not licensees under the patent, except perhaps as non-exclusive licensees by implication. They were not granted any right to exclude others under the patent. They do not accordingly "share" with the patentee the property rights represented by the patent so as to have standing to sue as a co-plaintiff with the patentee.

These agreements were simply sales contracts between Rite-Hite and its independent distributors. They did not transfer any proprietary interest in the '847 patent and they did not give the ISOs the right to sue. If the ISOs lack a remedy in this case, it is because their agreements with Rite-Hite failed to make provisions for the contingency that the granted sales exclusivity would not be

maintained. The ISOs could have required Rite-Hite to sue infringers and arrangements could have been agreed upon concerning splitting any damage award. Apparently, this was not done.

The grant of a bare license to sell an invention in a specified territory, even if it is the only license granted by the patentee, does not provide standing without the grant of a right to exclude others. The ISOs are legally no different from the individual salespersons whom the district court earlier refused to allow to join the suit. *Rite-Hite*, 774 F. Supp. at 1536, 21 USPQ2d at 1818 (holding that sales persons employed by the sales organizations are not entitled to recover damages as agents of the exclusive licensee-sales organizations). They are not proper parties to this suit, and their claims must be dismissed.[12]

IV. Computation of Reasonable Royalty

The district court found that Rite-Hite as a manufacturer was entitled to an award of a reasonable royalty on 502 infringing restraint or restraint-leveler sales for which it had not proved that it contacted the Kelley customer prior to the infringing Kelley sale. *Rite-Hite*, 774 F. Supp. at 1534, 21 USPQ2d at 1816. The court awarded a royalty equal to approximately fifty percent of Rite-Hite's estimated lost profits per unit sold to retailers. *Id.* at 1535, 21

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[12] Appellees contend that the issue of the ISOs' standing to recover damages is law of the case because of Kelley's failure to appeal during the liability phase of the trial the district court's order permitting intervention, for which reconsideration was denied in August 1984. We disagree. At the time of intervention, other unfair competition claims were asserted, now abandoned. Further, in the damage phase of the case, now appealed, the district court heard evidence and made detailed findings of fact and conclusions of law regarding the background of the ISOs, the exclusivity of their licenses, and their *entitlement* to damages. *Rite-Hite Corp. v. Kelley Co.*, 774 F.Supp. 1514, 1522-25, 1536, 21 USPQ2d 1801, 1806-08, 1818 (E.D. Wis. 1991). In so doing, the court addressed arguments and evidence that were not before it in its summary August 1984 ruling. *Id.* at 1524, 21 USPQ2d at 1808. The issue presented here, the ISOs' right to recover damages, was not finally resolved by the district court until the damage phase of trial. Indeed, the court expressly stated in the *Rite-Hite* damage opinion that the ISOs' *right* to patent damages was at issue.

USPQ2d at 1817. Further, the court found that Rite-Hite as a retailer was entitled to a reasonable royalty amounting to approximately one-third its estimated lost distribution income per infringing sale. Kelley challenges the amount of the royalty as grossly excessive and legally in error.

A patentee is entitled to no less than a reasonable royalty on an infringer's sales for which the patentee has not established entitlement to lost profits. 35 U.S.C. § 284 (1988); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078, 219 USPQ 679, 681-82 (Fed. Cir. 1983) ("If actual damages cannot be ascertained, then a reasonable royalty must be determined."). The royalty may be based upon an established royalty, if there is one, or if not, upon the supposed result of hypothetical negotiations between the plaintiff and defendant. *Id.* at 1078, 219 USPQ at 682.[13] The hypothetical negotiation requires the court to envision the terms of a licensing agreement reached as the result of a supposed meeting between the patentee and the infringer at the time infringement began. *Id.* "One challenging only the court's finding as to amount of damages awarded under the 'reasonable royalty' provision of § 284, therefore, must show that the award is, in view of all the evidence, either so outrageously high or so outrageously low as to be unsupportable as an estimation of a reasonably royalty." *Lindemann Maschinen-*

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[13] The hypothetical negotiation is often referred to as a "willing licensor/willing licensee" negotiation. However, this is an inaccurate, and even absurd, characterization when, as here, the patentee does not wish to grant a license. *See Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1081, 219 USPQ 679, 684 (The willing licensee/licensor concept is "employed by the court as a means of arriving at reasonable compensation and its validity does not depend on the actual willingness of the parties to the lawsuit to engage in such negotiations[; t]here is, of course, no actual willingness on either side."); *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 900, 229 USPQ 525, 528 (Fed. Cir.) ("The willing licensee/licensor approach must be flexibly applied as a 'device in the aid of justice.'") (citation omitted), *cert. denied*, 479 U.S. 852 (1986).

fabrik GmbH v. American Hoist & Derrick Co., 895 F.2d 1403, 1406, 13 USPQ2d 1871, 1874 (Fed. Cir. 1990).

The district court here conducted the hypothetical negotiation analysis. It determined that Rite-Hite would have been willing to grant a competitor a license to use the '847 invention *only* if it received a royalty of no less than one-half of the per unit profits that it was foregoing. In so determining, the court considered that the '847 patent was a "pioneer" patent with manifest commercial success; that Rite-Hite had consistently followed a policy of exploiting its own patents, rather than licensing to competitors; and that Rite-Hite would have had to forego a large profit by granting a license to Kelley because Kelley was a strong competitor and Rite-Hite anticipated being able to sell a large number of restraints and related products. *See Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 1591 218 USPQ 481, 487 (Fed. Cir. 1983) (court may consider impact of anticipated collateral sales); *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 166 USPQ 235, (S.D. N.Y. 1970) (wide range of factors relevant to hypothetical negotiation), *modified and aff'd.*, 446 F.2d 295, 170 USPQ 369 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971). It was thus not unreasonable for the district court to find that an unwilling patentee would only license for one-half its expected lost profits and that such an amount was a reasonable royalty. The fact that the award was not based on the infringer's profits did not make it an unreasonable award. *See State Indus.*, 883 F.2d at 1580, 12 USPQ2d at 1031 ("The determination of a reasonable royalty . . . is based not on the infringer's profit margin [; t]here is no rule that a royalty be no higher than the infringer's net profit margin."); *Stickle v. Heublein, Inc*, 716 F.2d 1550, 1563, 219 USPQ 377, 387 (Fed. Cir. 1983) (royalty need not be less than price of infringing unit). Furthermore, the fact that the award was based on and was a significant portion of the patentee's profits also does not make the award unreasonable. The language of the statute requires "damages adequate to compensate," which does not include a royalty

that a patentee who does not wish to license its patent would find unreasonable. *See Del Mar*, 836 F.2d at 1328, 5 USPQ2d at 1261 ("[The] imposition on a patent owner who would not have licensed his invention for [a certain] royalty is a form of compulsory license, against the will and interest of the person wronged, in favor of the wrongdoer."). Moreover, what an infringer would prefer to pay is not the test for damages. *See TWM*, 789 F.2d at 900, 229 USPQ at 528 (that the parties might have agreed to a lesser royalty is of little relevance, for to look only at that question would be to pretend that the infringement never happened; it would also make an election to infringe a handy means for competitors to impose a compulsory license policy upon every patent owner).

We conclude that the district court made no legal error and was not clearly, erroneous in determining the reasonable royalty rate. Accordingly, we affirm the trial court's calculation of a reasonable royalty rate. However, because we vacate the court's decision to include dock levelers in the royalty base, we remand for a redetermination of damages based only on the sale of the infringing restraints and not on the restraint-leveler packages.

B.
Rite-Hite's Cross Appeal

Rite-Hite and the ISOs sought damages based on lost profits at the retail level for ADL-100 and MDL-55 restraints and dock levelers. The district court denied the award on the basis that both Rite-Hite and the ISOs failed to meet their evidentiary burden of proving lost profits. Rite-Hite has not persuaded us that the court's decision was erroneous. As for the ISOs, this issue is mooted by the above rulings.

Rite-Hite also argues that the district court erred in awarding interest at a simple rather than a compound rate because, as a matter of law, prejudgment interest must be compounded. We

disagree. It has been recognized that "an award of compound rather than simple interest assures that the patent owner is fully compensated." *Fromson v. Western Litho Plate & Supply Co.*, 13 USPQ2d 1856, 1862 (E.D. Mo. 1989), *aff'd mem.*, 909 F.2d 1495 (Fed. Cir. 1990). However, the determination whether to award simple or compound interest is a matter largely within the discretion of the district court. *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 557, 222 USPQ 4, 10 (Fed. Cir. 1984) (declining to rule that prejudgment interest must be compounded as a matter of law). Rite-Hite has not persuaded us that the court abused its discretion in awarding interest at a simple rate.

CONCLUSION

On Kelley's appeal, we affirm the district court's decision that Rite-Hite is entitled to an award of lost profit damages based on its lost business in ADL-100 restraints. We affirm the court's determination of the reasonable royalty rate. We vacate the awards to the ISOs and vacate the damage award based on the dock levelers. We remand for the court to dismiss the ISOs as plaintiffs and recalculate damages to Rite-Hite. On Rite-Hite's cross-appeal, we affirm.

COSTS

Each party will bear its own costs of this appeal.

AFFIRMED-IN-PART, VACATED-IN-PART, and REMANDED

Nos. 92-1206, -1260

RITE-HITE CORPORATION, ACME DOCK SPECIALISTS, INC., ALLIED EQUIPMENT CORP., APPLIED HANDLING, INC., ANDERSON MATERIAL HANDLING CO., BLOCK-DICKSON, INC., ROBERT LUND d/b/a/ HMH COMPANY, HOJ ENGINEERING & SALES CO., INC., JOHNSON EQUIPMENT CO., JOHNL & ASSOCIATES, INC., KELLER EQUIPMENT CO., INC., LOADING DOCK EQUIPMENT, INC., METRO DOCK SPECIALISTS, INC., MCCORMICK EQUIPMENT COMPANY, INC., MID-SOUTH DOCK SYSTEMS, INC., HARRY MONOHAN, NIEHAUS INDUSTRIAL SALES, INC., NORTHWAY MATERIAL HANDLING CO., INC., PEMCO MATERIAL HANDLING, INC., R.B. CURLIN, INC., RICE EQUIPMENT COMPANY, STOKES EQUIPMENT COMPANY, INC., ROBERT SOPER LIMITED, TIMBERS & ASSOCIATES, INC., TODD EQUIPMENT CORPORATION, THAYER SYSTEMS, INC., and W.E. CARLSON CORPORATION,

Plaintiffs/Cross-Appellants,

v.

KELLEY COMPANY, INC.,

Defendant/Appellant.

NIES, *Circuit Judge*, with whom ARCHER, *Chief Judge*, SMITH, *Senior Circuit Judge*, and MAYER, *Circuit Judge* join, dissenting-in-part.

I.
SUMMARY

The majority uses the provision in 35 U.S.C. § 284 for "damages" as a tool to expand the property rights granted by a patent. I dissent.

No one disputes that Rite-Hite is entitled to "full compensation for any damages suffered as a result of the infringement." *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 653-54 (1983). "Damages," however, is a word of art. "Damages in a legal sense means the compensation which the law will award for an injury done." *Recovery in Patent Infringement Suits: Hearings on H.R. 5231 [later H.R. 5311] Before the Committee on Patents*, 79th Cong., 2nd Sess. 9 (1946) (statement of Conder C. Henry, Asst. Comm'r of Patents) (hereinafter "House Hearings"). Thus, the question is, "What are the injuries for which full compensation must be paid?".

The majority divorces "actual damages" from injury to patent rights.[1] The majority holds that a patentee is entitled to recover its lost profits caused by the infringer's competition with the patentee's business in ADL restraints, products not incorporating the invention of the patent in suit but assertedly protected by other unlitigated patents. Indeed, the majority states a broader rule for the award of lost profits on any goods of the patentee with which the infringing device competes, even products in the public domain.

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[1] The term "actual damages" is used to distinguish from an award based on a hypothetical reasonable royalty. In the majority view, this dissent "confuses" the patent right to exclude with the separate determination of actual damages for patent infringement. Contrary to the majority, both determinations depend on injury to patent rights. The patent defines the metes and bounds of legal injury. As the Supreme Court stated in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 430 (1908): "From the character of the right of the patentee we may judge of his remedies." The majority and the dissent do not merely quibble over "line-drawing" by reason of "remoteness" of an injury but rather fundamentally disagree over the legal scope of the market protected by a patent.

I would hold that the diversion of ADL-100 sales is not an injury to patentee's property rights granted by the '847 patent. To constitute legal injury for which lost profits may be awarded, the infringer must interfere with the patentee's property right to an exclusive market in goods embodying the invention of the patent in suit. The patentee's property rights do not extend to its market in other goods unprotected by the litigated patent. Rite-Hite was compensated for the lost profits for 80 sales associated with the MDL-55, the only product it sells embodying the '847 invention. That is the totality of any possible entitlement to lost profits. Under 35 U.S.C. § 284, therefore, Rite-Hite is entitled to "damages" calculated as a reasonable royalty on the remainder of Kelley's infringing restraints.

I also disagree that the calculations of a reasonable royalty may be based on a percentage of Rite-Hite's lost profits. Under 35 U.S.C. § 284, a reasonable royalty must be attributed to Kelley's "use of the invention." A royalty must be based on the value of the patented hook, not on other features in the infringing device, *e.g.*, the motors, which form no part of the patented invention used by Kelley. Further, the trial court discounted or excluded significant evidence and otherwise improperly calculated a reasonable royalty rate.

Accordingly, for the reasons more fully presented below, I dissent from the majority on these issues. I concur in the result of part AII and join part AIII. I take no position on the cross-appeal regarding interest (part B) which is irrelevant to this dissent.

II.
LOST PROFITS

As a matter of legal analysis, the majority treats the issue of "damages" for a patentee's lost trade in competitive goods not embodying the invention of the patent in suit as one of first

impression. It is not. The following outline sets out the established law:

(1) Patent "damages" are limited to legal injury to property rights created by the patent, not merely causation in fact.

(2) Under precedent in 1946, a patentee was entitled to recover, either at law or in equity, only the profits attributable to the invention. A patentee's property rights were limited to its exclusivity in the market for the patented goods in suit. "Damages" were awardable only for injury to that trade, and only to the extent of the contribution of the invention to profits. Apportionment of profits and the entire market value rule reflect these principles. Injury to the patentee's trade in other competitive products was deemed an indirect loss and not compensable. "Foreseeability" was not the test for legal injury for patent infringement.

(3) In 1946, Congress eliminated the remedy of an equitable accounting for a defendant's profits and reenacted the provision for "damages" in 1946 and 1952. Congress made no change in the precedential law of "damages" except for prejudgment interest.

(4) Since 1946, the Supreme Court has not overturned its precedent on "damages." Under the entire market value rule applicable to lost profits awards, a patentee must prove the invention in suit created consumer demand for the patented and infringing products.

(5) The majority's decision creates a conflict with the law of patent "damages" in all other circuits.

(6) The majority decision cannot be reconciled with other provisions of the patent statute or with public policies.

A. *The Insufficiency of "But-For" as the Sole Test*

As a preliminary matter, I wish to state my reasons for rejecting the arguments made by appellee Rite-Hite in support of the district court's judgment. The district court held, and Rite-Hite argues on appeal, supported by the amici, that the only restriction on the award of "actual damages" for patent infringement is proof of causation in fact, that is, satisfaction of a "but-for" test.[2] Under that test, it would follow that Rite-Hite is entitled to any profits it lost due to the infringer's competition, whether it lost sales of restraints embodying the invention in suit, or those protected by other patents, or even products in the public domain, *i.e.*, never patented or the subject of expired patents. The district court applied a "but-for" standard to award lost profits on dock levelers as well.

In support of the district court's ruling, Rite-Hite relies on the statement in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964), that a patentee's damages under the statute must be measured by "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." 377 U.S. at 507 (plurality opinion) (quoting *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552 (1886)). However, one of the most common sources of error occurs from quotations taken from opinions out of context. One might just as well try to play music merely by reading the lyrics. In *Aro*, the quoted statement was made in connection with *limiting* the amount of damages which could be recovered. As

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[2] *Rite-Hite Corp.* v. *Kelley Co.*, 774 F. Supp. 1514, 1537, 21 USPQ2d 1801, 1819 (E.D. Wis. 1991):

> In order to recover lost profits damages, "a patentee must show a reasonable probability that, but for the infringement, it would have made the sales that were made by the infringer." *Id.*; *see also Panduit Corp.* v. *Stahlin Bros. Fibre Works*, 575 F.2d 1152, 197 U.S.P.Q. 726 (6th Cir. 1978). The issue of whether a court should award lost profits damages or a reasonable royalty under § 284 thus turns primarily upon the quality of plaintiffs' proof of lost profits. Neither § 284 nor controlling case law restricts the recovery of lost profits damages any further.

further explained respecting damages for contributory infringement:

> [A]fter a patentee has collected from or on behalf of a direct infringer damages sufficient to put him in the position he would have occupied had there been no infringement, he cannot thereafter collect actual damages from a person liable only for contributing to the same infringement.

Aro, 377 U.S. at 512. The quotation from *Aro* on which Rite-Hite relies simply precludes *double* recovery. *Aro* does not mandate that a "but-for" test is the only restriction on recovery of patent infringement damages. Nor does *Aro* endorse the expansive view of damages adopted by the majority. In rejecting the patentee's damages theory, the opinion stated, "It would enable the patentee to derive a profit not merely on unpatented *rather than* patented goods — an achievement proscribed by the Motion Picture Patents [243 U.S. 502] and *Mercoid* [320 U.S. 661] cases — but on unpatented *and* patented goods." 377 U.S. at 510 (plurality) (emphasis in original).

Rite-Hite's principal authority from this court for its "but-for" theory is *Lam, Inc.* v. *Johns-Manville Corp.*, 718 F.2d 1056, 219 USPQ 670 (Fed. Cir. 1983). The *Lam* rule, according to Rite-Hite, similarly requires only that the court answer the question: "Had the Infringer not infringed, what would Patent Holder . . . have made?' " *Lam*, 718 F .2d at 1064, 219 USPQ at 677 (quoting *Aro*, 377 U.S. at 507). However, lost profits in *Lam* were awarded for interference with the patentee's sales of lamps which were "the embodiment of the claimed invention." *Lam*, 718 F.2d at 1059, 219 USPQ at 671. In *Lam*, indeed, in all of our previous decisions on "lost profits," we were addressing the factual issue of whether the patentee was entitled to its lost profits by reason of the infringer's diversion of the patentee's sales of products embodying

the invention of the infringed patent.[3] The issue of recovery for losses related to the marketing of a patentee's competitive product protected, if at all, under a different patent, was not involved.

Over centuries of judge-made law, the term "damages" has become a word of art in the common law carrying both factual and legal limitations. The legal limitations (frequently called "proximate cause," an unfortunate expression because of its confusing similarity to a but-for test) must be determined as a matter of law by the judge. W. Page Keeton, et al., *Prosser and Keeton on the Law of Torts* § 41 (5th ed. 1984). Causation in fact of an injury *i.e.*, the but-for test) is applied after the legal determination is made that the asserted injury is a type which is legally compensable for the wrong. The but-for determination is a factual matter for the jury (or the judge in a bench trial). Thus, the common law term "damages" does not encompass any and all economic injury that one may suffer in fact from a wrong. Also, contrary to the district court's view, "proximate" or "legal" causation of patent damages is not merely a more closely scrutinized causation in fact test determined by "the quality of plaintiffs' proof." 774 F. Supp. at 1537, 21 USPQ at 1819. In connection with a tort created by a federal statute, the public purpose of the statute and the likely intent of Congress are the overriding considerations respecting the types of injuries for which damages may legally be awarded. *Holmes* v. *Securities Investor Protection Corp.*, 503 U.S. 258, 274 (1992); *Associated Gen. Contractors, Inc.* v. *California State*

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[3] The majority also finds support for its decision here in decisions of this court which applied a but-for test to determine liability for lost profits in connection with the patentee's business in goods embodying the patented invention in suit, namely, *State Indus., Inc.* v. *Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577, 12 USPQ2d 1026, 1028 (Fed. Cir. 1989), *cert. denied*, 493 U.S. 1022 (1990); *Del Mar Avionics, Inc.* v. *Quinton Instrument Co.*, 836 F.2d 1320, 1326, 5 USPQ2d 1255, 1260 (Fed. Cir. 1987); *King Instrument Corp.* v. *Otari Co.*, 767 F.2d 853, 863, 226 USPQ 402, 409 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986). There was no question in those cases that the injury to a patentee's business in patented goods was compensable. The question was sufficiency of proof that the patentee would have made the sales but for the infringement.

Council of Carpenters, 459 U.S. 519, 538-40 (1983); *see also Brunswick Corp.* v. *Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977) ("[Plaintiff under section 7 of the Clayton Act] must prove more than injury causally linked to an illegal presence in the market. Plaintiffs must prove *antitrust* injury, which is to say injury of the type the antitrust laws were intended to prevent.") Courts must be careful to discern and not exceed the purpose which the legislature intended. *Cf.* Keeton, et al., *supra,* § 36.

The term "damages" in the patent statute must be interpreted in light of the familiar common law principles of legal or proximate cause associated generally with that term. In rejecting a "but-for" standard for determining "damages" in the Clayton Act,[4] the Supreme Court observed:

> [A] number of judge-made rules circumscribed the availability of damages recoveries in both tort and contract litigation — doctrines such as foreseeability and proximate cause, directness of injury, certainty of damages, and privity of contract. Although particular common-law limitations were not debated in Congress, the frequent references to common-law principles imply that Congress simply assumed that antitrust damages litigation would be subject to constraints comparable to well-accepted common-law rules applied in comparable litigation.

Associated Gen. Contractors, 459 U.S. at 532-33 (citations omitted).

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[4] Section 4 of the Clayton Act, 15 U.S.C. § 15 (1988) provides (emphasis added):

> [A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefore in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the *damage by him sustained*, and the cost of suit, including a reasonable attorney's fee.

The Supreme Court has recently applied a similar analysis of the civil action damages provision of RICO.[5] *Holmes* v. *Securities Investor Protection Corp.*, 112 S. Ct. 1311, 1316-19 (1992). As stated in *Holmes* respecting the overriding necessity for "proximate cause" for an injury to be compensable under a statute awarding "damages":

> *[A] showing [must be made] not only that the defendant's violation [of RICO] was a 'but for' cause of [the plaintiff's] injury, but was the proximate cause as well.* [As further explained] proximate cause [is used] to label generically the judicial tools used to limit a person's responsibility for the consequences of that person's own acts.

112 S. Ct. at 1316-18 (emphasis added).[6]

Under this Supreme Court precedent, the law is clear that proximate cause is applied as a legal limitation on "damages" in connection with the statutory torts which the Court has considered. A "but-for" test tells us nothing about whether the injury is *legally* one which is compensable. As above stated, the lack of proximate causation will preclude recovery for certain losses even though a "but-for" standard of injury in fact is satisfied. *See also Blue Shield of Va.* v. *McCready*, 457 U.S. 465, 476-77 (1982) (Clayton Act); *Davis* v. *AVCO Fin. Servs., Inc.*, 739 F.2d 1057, 1067 (6th Cir.

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[5] RICO's civil action provision, 18 U.S.C. § 1964(c) (1988), reads (emphasis added):

> *Any person injured* in his business or property by reason of a violation of section 1962 of this chapter may sue therefore in any appropriate United States district court and *shall recover threefold the damages* he sustains and the cost of the suit, including a reasonable attorney's fee.

[6] These principles were stated in the context of a party's standing to sue. However, the Court drew upon principles respecting the limitation of "proximate cause" on recoverable damages. *See Associated Gen. Contractors*, 459 U.S. at 536 ("It is common ground [respecting damages and standing] that the judicial remedy cannot encompass every conceivable harm that can be traced to alleged wrongdoing.")

1984), *cert. denied*, 470 U.S. 1005 (1985) ("but-for" test may not be equated with "proximate cause"); Keeton, et al., *supra*, at 42.

Rite-Hite and the majority treat lost profits as the legal injury. However, lost profits is a way to measure compensation for a legal injury. Lost profits is not itself the legal injury. No rational basis is suggested by Rite-Hite or the amici for applying a different interpretation to the statutory term "damages" in connection with the tort of patent infringement. No legislative history even hints that patentees are so favored that a special or more expansive meaning was intended for patent "damages." A "but-for" test for "damages," which would mandate that all types of economic injury to a patentee's business traceable to the infringement are compensable, is as legally deficient a standard for patent infringement "damages" as for "damages" under the Clayton Act or RICO. Causation in fact is not the sole test for determining compensable "damages" under 35 U.S.C. § 284.

That said, however, merely brings us to the issue of what are the legal limits on "damages" for patent infringement.

As will be shown, precedent before 1946 unequivocally established that compensable lost profits were restricted to those the patentee would have made from commercializing the invention. Further, Congress reenacted the provision for "damages" with that understanding.

B. ***Statutory Provisions***

The question raised in this appeal is one of statutory construction, but it is of constitutional dimension. Article I, section 8 of the Constitution provides for a patent system which will "promote the Progress . . . of the useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their Discoveries." Congress has provided in 35 U.S.C. § 284 (1988):

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringe-

ment, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

What stimulus, what financial rewards did Congress intend by the term "damages" to effect the purpose of promoting progress in the useful Arts?

The majority concludes that Congress enacted expansive language in § 284, providing "only a lower limit and no other limitation." Slip op. at 8.[7] The majority finds support for its interpretation in the statement in *Devex Corp.*, 461 U.S. at 653-54, that Congress sought to "ensure that the patent owner would, in fact, receive full compensation for 'any damages' [the patentee] suffered as a result of infringement" (quotation marks in original). The majority also states that the *Devex* Court cautioned against imposing limitations on patent infringement damages that were not explicit. *Id.* at 653. While true, that "caution" was only part of the Court's analysis. In *Devex*, the question was the interpretation of the provision for "interest" added in 1946, later codified in § 284, with respect to which the Court explained:

> This is not a case in which Congress has reenacted statutory language that the courts had interpreted in a particular way. In such a situation, it may well be appropriate to infer that

[7] The majority construes "adequate" as an expansive term. If anything the term "adequate" suggests moderation, the standard definiton of the term being "reasonably sufficient," *Webster's Ninth New Collegiate Dictionary*, 56 (9th ed. 1983), or even "barely sufficient," *The American Heritage Dictionary* 15 (10th ed. 1981).

> Congress intended to adopt the established judicial interpretation.

Id.

The provision for "damages" in § 284, unlike that for "interest," was *reenacted* language. While the statutory remedies have been modified over the years in other ways, a patentee has been entitled to recover actual damages at law since the beginning of the nineteenth century. See *Seymour* v. *McCormick*, 57 U.S. (16 How.) 480, 488-89 (1854), for a review of the 1836 Act and earlier statutory provisions. *See also* Irah H. Donner, *BIC Leisure v. Windsurfing*, 4 Fed. Circuit Bar J. 167 (1994).

Immediately prior to 1946, the patent statute provided for recovery of the "damages" the patentee sustained, a remedy at law, which could, in appropriate cases, be the amount of a patentee's lost profits by diversion of its sales of patented goods, the amount of an established royalty or a reasonably royalty.[8] In addition, a patentee was entitled to an equitable accounting for profits made by the infringer from the invention. To simplify proceedings, both remedies were made available by statute in an equity court where infringement suits were generally brought in order to obtain injunctive relief. Patent Act of 1870, ch. 230, 16 Stat. 206-7 (1870). The provision for "damages" and for an accounting for profits did not, however, allow double recovery. Common law "damages" were recovered to the extent the amount exceeded a defendant's profits.[9]

"By the 1946 amendments, [citation omitted] the statute was changed to its present form, whereby only 'damages' are recoverable." *Aro Mfg. Co.*, 377 U.S. at 505. This was effected by

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[8] Other types of actual damages, *e.g.*, price erosion on the patentee's patented goods, are not involved here.

[9] See *Georgia-Pacific Corp.* v. *United States Plywood Co.*, 243 F. Supp. 500, 516-46, 146 USPQ 228, 242-54 (S.D.N.Y. 1965), for an extended analysis of statutory remedies in successive patent statutes.

eliminating an accounting for an infringer's profits. A specific provision for "damages" measured as a reasonably royalty was added, as well as a provision for prejudgment interest. Act of Aug. 1, 1946, ch. 726, § 1, 60 Stat. 778 (codified as amended at 35 U.S.C. §§ 281, 283-286, 290 (1988)). The 1952 codification of the patent statute did not change the substance of allowable "damages." Its stated purpose was merely "reorganization in language to clarify the statement of the statutes." *Aro*, 377 U.S. at 505 n.20 (quoting H.R. Rep. No. 1923, 82d Cong., 2d Sess. at 10, 29 (1952)). Thus, again "damages" is *reenacted* language and it would be reasonable to infer that Congress intended to adopt the established judicial interpretation. *Id.*

One need not rely on mere inference respecting the meaning Congress intended for the term "damages." As explained to Congress in hearings on the 1946 statute by officials of the Patent Office and other witnesses endorsing the bill, "Damages in a legal sense means the compensation which the law will award for an injury done." House Hearings at 9 (Henry statement). Respecting the restriction of profits to those created by the invention, all agreed "those [are] the only profits to which the patentee is entitled." *Id.* at 3 (Fish letter introduced by Hon. Robert K. Henry, Member of Congress). Those statements correctly reflect the pre-1946 meaning of "damages" in the patent statute.

C. *Property Rights Granted by Patent*

An examination of pre-1946 Supreme Court precedent discloses that the legal scope of actual damages for patent infringement was limited to the extent of the defendant's interference with the patentee's market in goods embodying the invention of the patent in suit. This limitation reflects the underlying public policy of the patent statute to promote commerce in new products for the public's benefit. More importantly, it protects the only property rights of a patentee which are protectable, namely those granted by the patent. The patentee obtained as its property an exclusive

market in the patented goods. "[I]nfringement was a tortious taking of a part of that property." *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641, 648 (1915). In theory the infringer was a trustee of profits it made off the invention and/or was liable for lost profits the patentee would have made from its own sales of the patented goods.

In *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 430 (1908), the Supreme Court advised: "From the character of the right of the patentee we may judge of his remedies." Until the Act of 1952, the right granted to a patentee was stated in terms of the exclusive right to make and use and vend the protected invention.[10] This language tracks the English Statute of Monopolies (1624) under which the Crown did give a monopoly to an inventor to make and work certain new manufactures within the realm for a limited period.[11] The term "invention" itself meant the establishment of a new trade or industry. Thus, under the Statute of Monopolies, an "inventor" was anyone who developed an industry previously *unknown in England*. The period of exclusivity was given for the inventor to reap his reward in the marketplace without competition while thereby training others to make and use his invention at the end of the patent term.[12] Indeed, failure to exploit in England was a basis for cancellation of the grant.

In contrast, in the United States, the grant of a patent did not convey to the inventor a right to make, use and vend his invention

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[10] *See, e.g.*, Acts of 1790, 1793, and 1870.

[11] The Statute of Monopolies remained the only statute on patents in England well into the 19th Century.

[12] See Edward C. Walterscheid, The Early Evolution of the United States Patent Law: Antecedents (Part 2), 76 J. Pat. & Trademark Off. Soc'y, 849, 870-71 (1994). The original period of exclusivity was 14 years. Why that term was provided is unknown. It may have some relationship to the terms of successive apprenticeships. *Id.*

despite the statutory language originally to that effect. In interpreting, a patentee's rights in *Crown Die & Tool Co.* v. *Nye Tool & Machine Works*, 261 U.S. 24, 26 (1923), the Supreme Court explained that an inventor has a natural right to make, use and sell his invention, and that a patent augments an inventor's position by making that natural right *exclusive* for a limited time. The statutory language was interpreted to give a right to *preclude others* from interfering with the patentee's exclusivity in providing the patented goods to the public. *Id.* at 34.[13]

An inventor is entitled to a patent by meeting the statutory requirements respecting disclosure of the invention. Prior commercialization of the invention has never been a requirement in our law to *obtain* a patent. An inventor is merely required to teach others his invention in his patent application. Thus, when faced with the question of whether a patentee was entitled to enjoin an infringer despite the patentee's failure to use its invention, the Supreme Court held for the patentee. *Continental Paper Bag*, 210 U.S. at 424-430. Congress provided a right to exclusive use and to deny that privilege would destroy that right. *Id.* at 430. An injunction preserves the patentee's exclusive right to market embodiments of the patented invention.

These clearly established principles, however, do not lead to the conclusion that the patentee's failure to commercialize plays no role in determining damages. That the *quid pro quo* for *obtaining* a patent is disclosure of the invention does not dictate the answer to the question of the legal scope of damages. The patent system was not designed merely to build up a library of information by disclosure, valuable though that is, but to get new products into the marketplace during the period of exclusivity so that the public

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[13] The current statute provides expressly in 35 U.S.C. § 154:

> Every patent shall contain . . . a grant to the patentee . . . of the right to exclude others from making, using, or selling the invention throughout the United States.

receives full benefits from the grant. The Congress of the fledgling country did not act so quickly in enacting the Patent Act of 1790 merely to further intellectual pursuits. As explained in an early text, "The patent laws promote the progress in different ways, prominent among which are [*inter alia*] by protecting the investment of capital in the development and working of a new invention from ruinous competition till the investment becomes remunerative." Simonds, *Summary of the Law of Patents* 9 (1883). Better or cheaper products in the marketplace which promote competition is the goal.

In *Bement* v. *National Harrow Co.*, the Supreme Court recognized that the patent system was designed to stimulate the patentee to put new products into the market where the public would benefit from them:

> "If [the patentee] see fit, he may reserve to himself the exclusive use of his invention or discovery. If he will neither use his device nor permit others to use it, he has but suppressed his own. *That the grant is made upon the reasonable expectation that he will either put his invention to practical use or permit others to avail themselves of it upon reasonable terms, is doubtless true.* This expectation is based alone upon the supposition that *the patentee's interest will induce him to use*, or let others use, *his invention.* The public has retained no other security to enforce such expectations."

186 U.S. 70, 90 (1902) (quoting *Heaton-Peninsular Co.* v. *Eureka Specially Co.*, 77 F. 288, 294, 47 U.S. App. 146, 160 (6th Cir. 1896)) (emphasis added). Other statements of the Court are of like import. In *Woodbridge* v. *United States*, 263 U.S. 50, 55-56 (1923), the Court opined: "Congress relies for the public benefit to be derived from the invention during the monopoly [*i.e.*, the term of a patentee's exclusive market] on the natural motive for gain in the patentee to exploit his invention and to make, use and vend it or its products or to permit others to do so, for profit." The grant of a period in which a patentee has exclusivity in commercialization of

its patented product without competition from infringing products of others is provided in order to attract the necessary capital to start up a new business. Exclusivity in commercialization enables a patentee to recoup its investment in research, production, and marketing a new product. The merits of the invention will determine the patentee's just reward from the public.

Thus, a patentee may withhold from the public the benefit of use of its invention during the patent term, and the public has no way to withdraw the grant for nonuse. Like the owner of a farm, a patentee may let his property lay fallow. In doing so, "he has but suppressed his own." *Bement*, 186 U.S. at 90. But it is anomalous to hold that Congress, by providing an incentive for the patentee to enter the market, intended the patentee to be rewarded the same for letting his property lay fallow during the term of the patent as for making the investment necessary to commercializing a new product or licensing others to do so, in order that the public benefits from the invention. The *status quo* may serve the patentee's interest, but that is not the only consideration. The patent grant "was never designed for [an inventor's] exclusive profit or advantage." *Kendall* v. *Winsor*, 62 U.S. (21 How.) 322, 328 (1858).

D. *Injury to a Patentee's Market in Unprotected Goods is not a Patent Infringement Injury*

The question of recovery of lost profits to compensate a patentee for injury to its business in competitive products not protected by the patent in suit (hereinafter "unprotected goods") is not a new theory of damages. Over a hundred years ago, the Supreme Court expressed its view that damages in the form of lost profits must be based upon injury to the patentee's trade in products *embodying the patented invention.* As stated in *Crosby Steam Gage & Valve Co.* v. *Consolidated Safety Valve Co.*, 141 U.S. 441, 452-53 (1891) (emphasis added):

> If there had been an award of damages, and the loss of trade by the plaintiff, in consequence of the competition by the

> defendant, had been an element entering into those damages, *it would have been a material fact to be shown by the plaintiff that it was putting on the market goods embodying the [patented] invention.*

Faced with that statement by the Supreme Court, few patentees have had the temerity to seek damages for loss of trade in competitive unprotected devices and *none* have been successful in any other circuit.

Since *Seymour* v. *McCormick*, 57 U.S. (16 How.) 487 (1854), it had been an accepted tenet that actual "damages" depended on the infringer's interference with the patentee's commercial use of its invention either by exploiting the monopoly himself (that is, satisfying demand with his own patented goods) or by licensing the patent. *Yale Lock Mfg. Co.* v. *Sargent*, another frequently cited damages case, rests on the tenet that the infringement interfered with the patentee's marketing of the patented goods:

> As the plaintiff, at the time of the infringement, availed himself of his exclusive right by keeping his patent a monopoly, and granting no licenses, the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred, is to be measured, so far as his own sales of locks are concerned, by the difference between the money he would have realized from such sales if the infringement had not interfered with such monopoly, and the money he did realize from *such sales.*

117 U.S. at 552-53 (emphasis added). Absent a patentee's use of its invention or proof of an established license fee, infringement of a patent resulted in *nominal* damages. *Rude* v. *Westcott*, 130 U.S. 152, 165-67 (1889); 3 William C. Robinson, *The Law of Patents* § 1052 (1890). *See* 1 T. Sedwick, *Measure of Damages* 80 (1880) (general principle of nominal damages applied to patent infringement).

Commercialization of a patented invention can be accomplished by the patentee either (1) itself making, using or selling an embodiment of the invention or (2) licensing others to do so. *Seymour*, 57 U.S. (16 How.) at 489-90. Calculation of actual "damages" depended upon which of those two modes the patentee chose to secure the financial benefits from its invention. *See McCormick* v. *Seymour*, 15 F. Cas. 1329, 1335 (No. 8727) (C.C.N.D.N.Y. 1854) (on remand). "Hence the first point on which proof should be offered in reference to actual damages is the use made of his patent privilege by the plaintiff; the second is the effect produced upon the value of such use by the wrongful acts of the defendant." 3 Robinson § 1054 at 324. Evidence was not admissible of losses over the amount the patentee would have cleared by working or licensing the invention. *Id.* § 1061 at 339. *Carter* v. *Baker*, 5 F. Cas. 195, 201-02 (No. 2,472) (C.C.D. Cal. 1871). As stated in 3 Robinson § 898 at 56, respecting damage awards:

> The interest of the patentee is represented by the emoluments which he does or might receive from the practice of the invention by himself or others. Hence acts of infringement must attack the right of the patentee to those emoluments.

An attempt to recover actual damages for lost sales of a competitive unprotected product was made in *Metallic Rubber Tire Co.* v. *Hartford Rubber Works Co.*, 275 F. 315, 323-24 (2d Cir.), *cert. denied*, 257 U.S. 650 (1921). The Second Circuit held there could be no award of lost profits where the patentee, a maker of competitive tires, never manufactured and sold a tire containing the invention of the patent in suit. Similarly, in *Carter*, 5 F. Cas. at 201-02, the court instructed the jury that a patentee's loss by reason of its inability to sell plows other than those embodying the patent infringed were "[r]emote consequential damages" and not recoverable. As further explained in *Carter*, 5 F. Cas. at 202, the award of lost profits must be the "direct and legitimate fruits of that patent. They may have sustained damages from [loss of sales

of a competing unprotected device], but they are too remote." In *Standard Mailing Machines Co.* v. *Postage Meter Co.*, 31 F.2d 459 (D. Mass. 1929), the court limited the patentee to a reasonable royalty award because the patentee, although marketing a competitive product, was not "in the market during the infringing period, prepared to sell machines embodying the patented invention." *Id.* at 462. In *McComb* v. *Brodie*, 15 F. Cas. 1290, 1295 (No. 8,708) (C.C.D. La. 1872), the court instructed the jury to award lost profits *only if* the patentee was ready to supply the market with patented goods and the infringer diverted those sales. *See also Goodyear* v. *Bishop*, 10 F. Cas. 642 (No. 5,559) (C.C.S.D.N.Y. 1861) (jury charge); *Buerk* v. *Imhaeuser*, 4 F. Cas. 594, 595 (No. 2,107) (C.C.S.D.N.Y. 1876) (equity court); *Spaulding* v. *Page*, 22 F. Cas. 892, 895 (No. 13,219) (C.C.D.Cal 1871).

Additionally, the commentary over the years supports this position. The current statement in 8 Ernest Bainbridge Lipscomb, *Walker on Patents* § 27:22 (1989) has been essentially unchanged since at least the 1940's, before the present statute was enacted:

> Indirect consequential damage cannot be recovered in a patent infringement action. [Footnote omitted. *See, e.g., Velo-Bind, Inc.* v. *Minnesota Mining & Mfg. Co.*, 647 F.2d 965, 973, 211 USPQ 926, 934 (9th Cir. 1981).] The instances in which such damages have been claimed are few, but it is advisable to mention such injuries as might probably be held to fall within such a category.
>
> Pecuniary injury may result to a patentee from a particular infringement, in that it caused him *to suffer competition and consequent loss in business outside of the patent infringed*; or in that it so unexpectedly reduced the business in the patented article as to make it necessary for him to sell unpatented property at less than its real value, or to borrow money at more than a proper rate of interest in order to meet his pecuniary engagements; or in that it encouraged other persons to infringe from whom, by reason of insolvency or other obstacle,

no recovery can be obtained; or in that such infringement caused the patentee so much trouble and anxiety that he incurred loss from inability to attend to other business. *But pecuniary injury of any of these kinds would be such an indirect consequential matter as not to furnish any part of a proper basis for recoverable damages in an infringement suit.* [Emphasis added.]

There is no dispute that parts of a patentee's business not directed to commercializing the patented invention may *indirectly* benefit from the patentee's ownership of that patent. An extant patent of which a patentee makes little or no commercial use may serve to impede competition in the field so that a patentee is able to maintain its market position for the patentee's already established line of unprotected goods. However, where infringement of the patent interferes with that *indirect* benefit from the patent, the injury has heretofore been held to be an *indirect consequential* loss and not recoverable.

E. *Precedent Respecting the Apportionment of Profits and the Entire Market Value Rule*

The limitation of a patentee's monetary recovery to profits created by the invention is also reflected in the extensive pre-1946 caselaw on apportionment of profits and the correlative entire market value rule. While patentees who commercialized the invention of the patent in suit might recover some amount of profits, the entire amount of profits would not be awarded where the invention was not of an entirely new device but amounted only to an improvement, unless the invention was the basis for demand for the entire device. Similarly, in equity a patentee was limited to an accounting for the defendants' profits attributable to the invention. *See Dobson* v. *Dornan*, 118 U.S. 10 (1886) (involving both patentee's lost profits and accounting for defendant's profits; apportionment required); *Dobson* v. *Hartford Carpet Co.*, 114 U.S. 439, 444-46 (1885) (involving apportionment of the patentee's lost

profits; patentee must show "that the profits and damages are to be calculated on the whole machine for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature .... [T]o attribute, in law, the entire profit to the [invention] to the exclusion of the other merits, unless it is shown, by evidence, as a fact, that the profit ought to be so attributed, not only violates the statutory rules of 'actual damages' and of 'profits to be accounted for,' but confounds all distinctions between cause and effect."); *Garretson* v. *Clark*, 111 U.S. 120 (1884) (Patentee must apportion profits between patented and unpatented features or prove "damages are to be calculated on the whole machine for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature."); *Seymour*, 57 U.S. (16 How.) at 490 (same damage rule does not apply whether invention covers an entire machine or an improvement); *Keystone Mfg. Co.* v. *Adams*, 151 U.S. 139, 147-48 (1894) (serious difficulties arise in determining measure of damages where "patented invention is but one feature in a machine embracing other devices that contribute to the profits made by the defendant."). The Supreme Court has long rejected the view that damages are recoupable for the profit attributable to other patents embodied in a competitive device of the patentee. *Blake* v. *Robertson*, 94 U.S. 728, 733, 734 (1877). *Cf. Yale Lock Co.*, 117 U.S. at 553 (patentee's price-erosion award reduced where third party's patented invention incorporated into infringing device).

Apportionment of profits so as to reflect the "fruits" of the patent was the problem that prompted the 1946 amendments of the statute. The legislative history repeatedly indicates that apportionment required protracted expensive litigation for both parties and, because it was virtually impossible to apportion profits with any exactitude, frequently produced unfair results. Yet the profits due to the invention are the only profits to which the patentee was entitled unless the patentee could prove that the entirety of the

profits were due to the invention under the entire market value rule. *Westinghouse Elec. & Mfg. Co.* v. *Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615 (1912). In *Westinghouse*, the Supreme Court went on to hold that if the patentee did all it could to attempt to apportion the defendant's profits, the burden on apportionment shifted to the defendant in equitable accountings. Congress was told that, under the *Westinghouse* doctrine, the patentee "gets in very many cases enormously more than that to which he is really entitled." The elimination of equitable accountings, the most commonly used remedy, was urged for that reason. House Hearings at 3 (Fish letter). Congress was persuaded and deleted the remedy of equitable accountings for the *defendant's* profits from the statute. *Aro*, 377 U.S. at 505.

Respecting "damages" at law, in *Dowagiac Mfg. Co.*, *supra*, the Supreme Court endorsed the theory of a hypothetical reasonable royalty as "damages" where the patentee could not prove actual damages. This relief had been developed in several lower courts because of the unfairness to the patentee who, despite infringement, received only *nominal* damages. 235 U.S. at 648-50. Where actual damages in the form of recoupment of a patentee's "lost profits" or the amount of an established royalty could not be proved, the *Dowagiac* Court held that the patentee "was entitled to prove what would have been a reasonable royalty." *Dowagiac*, 235 U.S. at 650. Thus, to receive more than nominal damages, proof of actual losses was no longer required. Congress gave its specific approval to a reasonable royalty as statutory "damages" by enactment of the provision, "general damages . . . not less than a reasonable royalty."[14]

The 1946 amendments provide no basis for the majority's expansive view that Congress intended a patentee to recoup all

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[14] Although the Patent Act of 1922, 42 Stat. 392 (1922), contained no specific provision for a reasonable royalty, it was interpreted to allow this form of damages. *See Georgia-Pacific Corp.* v. *United States Plywood*, 243 F. Supp. at 519-20.

losses from infringement with "only a lower limit and no other limitation." Slip op. at 8. Indeed, Congress eliminated equitable accounting which, under *Westinghouse*, had favored patentees. Monetary relief was expanded to provide for the recovery of prejudgment interest. Respecting other form of "damages," Congress left the law intact. *Faulkner* v. *Gibbs*, 199 F.2d 635, 638 (9th Cir. 1952). A patentee remained entitled to recover its own lost profits only to the extent that they were directly created by the invention of the patent in suit and, thus, were the fruit of the invention. The scope of legal injury, that is, a patentee's property right to an exclusive market in patented goods, was not enlarged.

F. ***Post-1946 Precedent***

The previously discussed decisions in *Aro*, which limited damages, and *General Motors*, which dealt with prejudgment interest, provide the only direct guidance from the Supreme Court on "damages" under the current statute. Neither overturns the established precedent that a patentee is entitled to its own lost profits only for diversion of sales which the patentee would have made from its goods using the invention of the litigated patent. Nor do they overturn the entire market value rule that the entirety of a patentee's lost profits may be recovered as "damages" only where the patentee proves that use of the invention in suit in the patentee's and infringer's goods creates consumer demand for the entire product.

Between 1946 and 1982, every other circuit which addressed the issue adhered to the basic tenet that a patent protects a patentee's market for its own goods embodying the invention and no other market. Moreover, lost profits on an entire product were recoverable only where the patented invention created the demand for that product. The following cases are illustrative:

Second Circuit:

Electric Pipe Line, Inc. v. *Fluid Systems, Inc.*, 250 F.2d 697, 699, 116 USPQ 25, 27 (2nd Cir. 1957) (Lost profits appropriate since patentee and infringer "were the only suppliers of this unique patented fuel storage and transportation system ... [and] but for [defendant's] infringement, [patentee] would have made all these installations.").

Third Circuit:

American Security Co. v. *Shatterproof Glass Corp.*, 268 F.2d 769, 777, 122 USPQ 167, 174 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959) ("Each patent gives its owner a monopoly in respect to its disclosures, so much and no more. It is a grant of the exclusive right to manufacture, use and sell the invention which is disclosed. That invention is what the patent grant protects by the monopoly, not that invention plus some embellishment, improvement, or alternate product or process, which also happens to be patented.");

Devex Corp. v. *General Motors Corp.*, 667 F.2d 347, 361, 212 USPQ 643, 655 (3rd. Cir. 1981) *aff'd* 461 U.S. 648 (1983) ("Where a plaintiff itself uses the patented process in manufacturing, damages for infringement may take the form of lost profits, and the burden is on the plaintiff to show their amount. Where, as here, the party alleging infringement does not itself manufacture or use the patented process, compensation may take the form of a reasonable royalty for licensing the use of the patent.") (Citations omitted.) (The majority cites Supreme Court decision as support for a more expansive view.)

Fourth Circuit:

Marvel Specialty Co. v. *Bell Hosiery Mills, Inc.*, 386 F.2d 287, 155 USPQ 545 (4th Cir. 1967) *cert. denied* 390 U.S. 1030 (1968) (Patentee manufacturer could recover only estab-

lished royalty for patented goods, not other established royalty for patented goods plus improvements not covered by patent).

Fifth Circuit:

Baumstimler v. *Rankin*, 677 F.2d 1061, 1072, 215 USPQ 575, 584 (5th. Cir. 1982) ("Since [patentee] did not manufacture, sell or use the patented invention . . . [patentee] technically had no lost profits");

Livesay Window Co. v. *Livesay Indus., Inc.*, 251 F.2d 469, 470, 116 USPQ 167, 168-89 (5th Cir. 1958) (Lost profits determined based on sales of patented invention by exclusive licensee).

Sixth Circuit:

Panduit Corp. v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156, 197 USPQ 726, 730 (6th Cir. 1978) (Patentee manufacturer must prove lost profits by showing: "1) demand for the patented product, 2) absence of acceptable noninfringing substitutes, 3) his manufacturing and marketing capability to exploit the demand [for the patented product], and 4) the amount of profits he would have made.").[15]

Seventh Circuit:

Union Carbide Corp. v. *Graver Tank & Mfg. Co.*, 282 F.2d 653, 665-68, 127 USPQ 3, 12-14 (7th Cir. 1960), *cert. denied*,

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[15] The majority misstates the record and grossly distorts the *Panduit* test. First, contrary to the majority's statement that "Kelley does not challenge that Rite-Hite meets the *Panduit* test," slip op. at 11, Kelley's supplemental brief at 11 states: "If the trial court's decision is good law, then *Panduit* is not.... Affirming *Rite-Hite* v. *Kelley* will mean effectively overruling *Panduit*." *See also* Kelley's opening brief at 14. Second, the *Panduit* factors were not met. There is no proof anyone bought either the Rite-Hite or Kelley restraints because of the patented hook technology and the ADL-100 itself is an acceptable substitute not within the patent claims, *i.e.*, a noninfringing acceptable substitute.

365 U.S. 812 (1961) (Upholding special master's conclusion of law which stated "Plaintiff . . . has failed to prove . . . [t]he amount of its damage from loss of profits it would have made on such additional sales of the patented composition").

See also In re Universal Research Lab., Inc. 203 USPQ 984, 989 (N.D. Ill. 1978).

Ninth Circuit:

Velo-Bind, inc. v. *Minnesota Mining & Mfg. Co.*, 647 F.2d 965, 973, 21 USPQ 926, 933-94 (9th Cir.), *cert. denied*, 454 U.S. 1093 (1981) (patentee manufacturer of invention denied lost profits on unpatented supplies: "where the patent creates only part of the profits, damages are limited to that part of the profits, which must be apportioned as between those created by the patent and those not so created. [citation omitted] The damages sustained by [patentee] are easily apportioned between patented and unpatented lost sales.");

Faulkner v. *Gibbs*, 199 F.2d 635, 638 n.7, 95 USPQ 400, 402 n.7 (9th Cir. 1952) ("Where, however, the patentee has himself engaged in the manufacture, use or sale of his patented article, he may be awarded damages for his loss of profits resulting from the infringement.").[16]

Until this decision, the precedent of this court was consistent with other circuits. Lost profits have not been awarded except where the patentee lost sales of products in which the patentee used the claimed invention found to be infringed. *See Manville*

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[16] *See also* Note, *Remedies Against Patent Infringement*, 72 Harv. L. Rev. 328, 344-45 (1958) ("If a patentee who sells his invention discovers . . . that an infringer seller has diverted some of his potential sales," such a patentee may recover lost profits.); Note, *Recovery in Patent Suits*, 60 Colum. L. Rev. 840, 846-48 (1960) ("When a patentee has exploited his grant by manufacturing and selling the patented article rather than licensing others to do so, profits lost by the patentee as a direct result of an infringer's competing sales may be the measure of his damages.").

Sales Corp. v. *Paramount Sys., Inc.*, 917 F.2d 544, 549-51, 16 USPQ2d 1587, 1591-92 (Fed. Cir. 1990); *Kalman* v. *Berlyn Corp.*, 914 F.2d 1473, 1475-76, 16 USPQ2d 1093, 1094 (Fed. Cir. 1990); *State Indus.*, 883 F.2d at 1580, 12 USPQ2d at 1031; *Ryco, Inc.* v. *Ag-Bag Corp.*, 857 F.2d 1418, 1422, 8 USPQ2d 1323, 1326 (Fed. Cir. 1988); *Hartness Int'l. Inc.* v. *Simplimatic Eng'g Co.*, 819 F.2d 1100, 1106, 2 USPQ2d 1826, 1829 (Fed. Cir. 1987); *Otari*, 767 F.2d at 853, 226 USPQ at 402; *Gyromat Corp.* v. *Champion Spark Plug Co.*, 735 F.2d 549, 554, 222 USPQ 4, 8 (Fed. Cir. 1984); *Lam, Inc.*, 718 F.2d 1056, 219 USPQ 670. Indeed, we have specifically endorsed the requirement of commercial use by the patentee of the invention in suit for an award of lost profits. In *Trell* v. *Marlee Electronics Corp.*, 912 F.2d 1443, 1445, 16 USPQ2d 1059, 1061 (Fed. Cir. 1990), this court stated, "[b]ecause Trell did not sell its invention in the United States, he could not seek damages on the basis of lost profits." To the same effect is the statement in *Lindemann Maschinenfabrik GmbH* v. *American Hoist & Derrick Co.*, 895 F.2d 1403, 1406 n.2, 13 USPQ2d 1871, 1874 n.2 (Fed. Cir. 1990) (emphasis added):

> Because Lindemann *did not compete in the sale of its invention* in the United States, it did not, *as it could not*, seek damages on the basis of lost profits.

Similarly, the need for the patentee to compete with a product using the patented invention to obtain lost profits underlies the statement in *Micro Motion, Inc.* v. *Kane Steel Co.*, 894 F.2d 1318, 1322, 13 USPQ2d 1696, 1698 (Fed. Cir. 1990), "[w]here the patentee produces or sells a product (or service) covered by the patent claims, the patentee may seek to recover damages based on a theory of lost profits . . ."; and in *Del Mar Avionics*, 836 F.2d at 1326, 5 USPQ2d at 1260, "[t]he general rule of determining the actual damages to a patentee *that is itself producing the patented* item is to determine the sales and profits lost to the patentee because of the infringement" (emphasis added).

Moreover, under our precedent, lost profit awards have been dependent, *inter alia*, on proof that consumer demand for the patentee's goods is created by the advantages of the patented invention. *Slimfold Mfg. Co.* v. *Kinkead Indus., Inc.*, 932 F.2d 1453, 1458, 18 USPQ2d 1842, 1845 (Fed. Cir. 1991) ("[Patentee] failed to show that *buyers* of bi-fold metal doors specifically want a door *having the advantages* of the Ford patent"). *See also State Indus.*, 883 F.2d at 1576-80, 12 USPQ2d at 1028-31 (consumer demand went to patented method); *Ryco*, 857 F.2d at 1427-28, 8 USPQ2d at 1330-31 (patentee owner can meet demand for products covered by patent); *Gyromat*, 735 F.2d at 552, 222 USPQ at 6 (same).

The patentee's willingness and ability to supply the patented invention during the period of infringement is the thread that runs through all precedent of this court respecting "lost profits" awards. *See Kori Corp.* v. *Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649, 653, 225 USPQ 985, 987 (Fed. Cir.), *cert. denied*, 474 U.S. 902 (1985) (Patentee "is entitled to be compensated [for its lost profits] on the basis of its ability to *exploit the patent*") (emphasis added). While the majority does not specifically overturn any of our precedent, the basic premises expressed therein are eviscerated.[17]

G. *"Foreseeability" is not the Test for Patent Damages*

The majority agrees that the types of compensable injury for patent infringement are not unlimited. The majority draws the line

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[17] If the majority would limit the entire market value rule precedent to "convoyed" sales, slip op. at 17, note 7, this is clearly unwarranted. *See, e.g., Kori*, 761 F.2d at 655-56, 225 USPQ at 989 (profits on entire device awarded because patented feature created demand for patentee's entire device). The entire market value rule originated and continues to apply to a damage claim for lost profits on a patentee's device incorporating a patented improvement. Indeed, it may be noted that the Supreme Court has never approved extension of this rule to convoyed sales.

against recovery for an inventor's heart attack or for the decrease in the value of stock of a corporate patentee. Its opinion holds:

> We believe that under § 284 of the patent statute, the balance between full compensation, which is the meaning that the Supreme Court [in *General Motors*] has attributed to the statute, and the reasonable limits of liability encompassed by general principles of law can best be viewed in terms of reasonable, objective foreseeability.
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> If a particular injury was or should have been *reasonably foreseeable* by an infringing competitor in the *relevant market, broadly defined*, that injury is generally compensable. . . . Being responsible for lost sales of a competitive product is surely foreseeable; such losses constitute the full compensation set forth by Congress, as interpreted by the Supreme Court, while staying well within the traditional meaning of proximate cause.

Slip op. at 13 (emphasis added).

In the majority's view, the consideration of patent rights ends upon a finding of infringement. The separate question of damages under its test does not depend on patent rights but only on foreseeable competitive injury.[18] This position cannot be squared with the premise that compensation is due only for injury to patent rights. Thus, the majority's foreseeability standard contains a false premise, namely, that the "relevant market" can be "broadly defined" to include all competitive truck restraints made by the patentee. The *relevant* market for determining damages is confined to the market for the invention in which the patentee holds exclusive property rights. *Livesay Window*, 251 F.2d at 474 (cited with approval in *Devex*) ("The market under scrutiny then is confined to those products only which are patented or infringed.").

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[18] The majority cites no Supreme Court or other precedent for its proposition that "foreseeability" alone is the key to legal causation of patent damages and there is none.

To paraphrase *Brunswick Corp.*, 429 U.S. at 489, "[Plaintiffs] must prove more than injury causally linked to any illegal presence in the market [*i.e.*, the infringing goods]. Plaintiffs must prove [patent infringement] injury, which is to say injury of the type the [patent] laws were intended to prevent." The injury, thus, must be to the protected market in goods made in accordance with the patent, not unprotected truck restraints. In sum, patent rights determine not only infringement but also damages.

The majority does not give a passing nod to long-standing precedent restricting a patentee's legal injury to diversion of sales it would have made of products containing the patented invention, much less does it explain why the precedent should be abandoned. It simply declares *ipse dixit*: "Whether a patentee sells its patented invention is not crucial in determining lost profits damages." Slip op. at 16. While proximate cause limitations are acknowledged, the majority sees no problem here because the infringing devices were designed to compete with the ADL-100 devices and the "clear purpose of the patent law [is] to redress competitive damages resulting from infringement of the patent." Slip op. at 24. This reasoning awards patent infringement damages as if for a kind of unfair competition with the patentee's business. However, infringement of a patent is not a species of common law unfair competition; it is a distinct and independent federal statutory claim. *Mars Inc.* v. *Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 1373 (Fed. Cir. 1994). Moreover, the clear purpose of the patent system is to stimulate a patentee to put new products into the marketplace during the patent term, not to compensate the patentee "fully" while the public benefit from the invention is delayed until the invention falls into the public domain. Compensation in the form of lost profits for injury to the exclusive market in patented goods has provided the incentive to achieve that objective.

Reiterating that objective, the Supreme Court stated in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480 (1974):

> The productive effort thereby fostered [by the patent laws] will have a positive effect on society through the introduction of new products and processes of manufacturer into the economy, and the emanations by way of increased employment and better lives for our citizens.

Ignoring this objective, this decision expands the property rights afforded by a patent by broadening a patentee's protected market and, as a consequence, provides a disincentive to a patentee's commerce in the patented products.

Nothing in the statute supports the majority's "foreseeability" rule as the sole basis for patent damages. To the contrary, no-fault liability is imposed on "innocent" infringers, those who have no knowledge of the existence of a patent until suit is filed. Damages are recoverable for up to six years of unknowing infringement before suit. 35 U.S.C. § 286 (1988). "Foreseeability" is a wholly anomalous concept to interject as the basis for determining legal injury for patent infringement. While unknowing infringers cannot "foresee" any injury to the patentee, they are subject to liability for damages, including lost profits, for competition with the patentee's patented goods. Now they will be liable for diverting sales of the patentee's unprotected competitive products as well.

The "foreseeability" standard also cannot be reconciled with the statutory requirement for a patentee to mark its patented goods with the patent number to prevent innocent infringement.[19] The patent by itself does not give notice that the patentee's goods are

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[19] 35 U.S.C. § 287(a):

> Patentees, and persons making or selling any patented article for or under them, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement

protected. *Wine Ry. Appliance* v. *Enterprise Ry. Equip.*, 297 U.S. 387, 393 (1936). Failure to provide such notice cuts off a patentee's recovery of damages until actual notice of infringement is given even from deliberate infringers who clearly can "foresee" legal injury. As stated in *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 162 (1989) (alterations in original):

> The availability of damages in an infringement action is made contingent upon affixing a notice of patent to the protected article. 35 U.S.C. § 287. The notice requirement is designed "for the information of the public," *Wine Railway Appliance Co.* v. *Enterprise Railway Equipment Co.*, 297 U.S. 387, 397 (1936), and provides a ready means of discerning the status of the intellectual property embodied in an article of manufacture or design. The public may rely upon the lack of notice in exploiting shapes and designs accessible to all. See *Devices for Medicine, Inc.* v. *Boehl*, 822 F.2d 1062, 1066 (CA Fed. 1987) ("Having sold the product unmarked, [the patentee] could hardly maintain entitlement to damages for its use by a purchaser uninformed that such use would violate [the] patent").

Rite-Hite could not mark its ADL-100 restraints with notice of the '847 patent. Such "notice" would constitute false marking under 35 U.S.C. § 292 (1988). To hold that a patentee may recover damages respecting injury to its business in products that do not embody the invention which are unmarked or marked with a different patent number would treat a patentee that does not practice its invention more favorably than a patentee that does. The marking statute generates absurd results when applied to *damages* tied to products not made under the patent in suit.

The majority simply has the rule backwards. Heretofore, the *first* requirement to establish a patentee's entitlement to actual dam-

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occuring after such notice. Filing of an action for infringement shall constitute such notice.

ages in the form of lost profits has been proof that the patentee exercised its market place monopoly for its patented invention. Evidence of a patentee's business losses not due to an infringer's interference with the patentee's marketing of the invention was immaterial in assessing damages. The patent affords no property rights which can be injured outside the market in goods protected by the asserted patent.

The majority goes on to find the award of damages for lost sales of ADL-100s a *foreseeable* injury for infringement of the '847 patent. This is a remarkable finding. The facts are that Rite-Hite began marketing its ADL-100 motorized restraint in 1980. Kelley put out its Truk Stop restraint in June 1982. There is no dispute in this case[20] that Kelley "designed around" the protection afforded by any patent related to the ADL-100 with which Kelley's Truk Stop restraint was intended to compete. Two years later, the '847 patent in suit issued on the later-developed alternative hook technology used in the MDL-55. Kelley would have to have had prescient vision to foresee that it would be held an infringer of the unknown claims of the subsequently issued '847 patent and that its *lawful competition* with the ADL-100 would be transformed into a compensable injury.

Kelley would also have had to foresee that, for the first time in over 200 years of patent infringement suits, a court would extend protection to a part of a patentee's business which is not dependent on the patentee's use of the patented technology. Moreover, the Supreme Court and all sister circuits which have spoken on the legal scope of damages have, without exception, rejected the majority's expansive view that the only limitations on patent infringement damages are (1) satisfaction of a "but-for" test applied to "foreseeable" injuries, and (2) the amount must not be too low.

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[20] Rite-Hite, however, is not foreclosed by this litigation from suing Kelley on the ADL-100 patents and asserting collateral estoppel respecting the attribution of its ADL-100 losses to Kelley.

Under the entire market value rule, if Rite-Hite used the later improvement of the '847 patent in the ADL-100 restraint, it would have been required to prove that demand for those restraints was created by that invention to receive lost profits on the entire device. The majority recognizes the entire market value rule, citing *State Indus.*, 883 F.2d at 1580, 12 USPQ2d at 1031 (recovery of damages based on the value of the entire apparatus containing several features allowed where patented feature is basis for customer demand), but sees no inconsistency in not applying it here. This reasoning is difficult to follow. The majority agrees that if a patented improvement is used in a device of the patentee with which the infringer competes, to recover lost profits on the entire device, the patentee must prove that the patented feature is the basis for consumer demand for the entire product; but if the patentee substitutes other unprotected technology for the patented improvement, then the patentee is entitled to all of its lost profits. Surely this negates the stimulus for a patentee to put out products with the improvement.

The basic flaw in the majority's ruling is its rejection of the premise that recovery must be tied to profits from the invention itself. Here the patentee would have made no profits from the patented invention by additional sales of the unprotected ADL-100. There is no reason for the entire market value analysis if a patentee is entitled to compensation for "competitive damages" to its business generally. The '847 patent discloses and claims particular hook technology for a truck restraint. No part of the invention relates to motors. Indeed, the specification states that an advantage of the invention is that it requires no motor. No doubt the motorized features of the ADL-100 and the Truk-Stop which added to their price, by the same token, contributed to their profitability and salability as well. But because Rite-Hite did not use the '847 invention in the ADL-100 restraint, it escaped having to prove consumer demand for the motorized restraint was attributable to the '847 invention of an improved hook. It simply was

awarded lost profits based on unpatented features and features protected by other patents. None of the lost profits on the ADL-100s are the fruit of the '847 invention. It cannot be the law that they are recoverable.

If damages are awardable based on lost sales of a patentee's business in established products not protected by the patent in suit, the patentee not only has an easier case as a matter of proof, but also would receive *greater* benefits in the form of lost profits on its established products than if the patentee had made the investment necessary to launch a new product. That lost profits on an established line are likely to be greater than on a new device cannot be gainsaid. *See Continental Paper Bag*, 210 U.S. at 429. This result is not in accordance with the purpose of the patent statute. Actual damages are meant to compensate a patentee for losing the reward of the marketplace which the patentee's use of the invention would otherwise reap. Without such loss, Congress has mandated compensation in the form of a reasonable royalty.

The old rule stimulated a patentee's commerce in patented goods. The new rule makes it more profitable to the patentee to protect the *status quo*. The *status quo* is not "progress in the arts." Article I, sec. 8. I conclude the majority's rule is a wrong interpretation of the statute, indeed, may exceed the constitutional power to provide inventors with the exclusive right to their discoveries.

H. *The ADL-100 Patents*

Not only is the majority's basic idea of legal injury unsound based on "foreseeability" but also its specific test is equally flawed. For convenience, I have referred to the ADL-100 as "unprotected," meaning not covered by the patent in suit. However, a key factor in the majority's decision awarding damages for lost sales of the ADL-100 is that the "device" is "patented". The majority does not, nor did the parties, discuss what inventions the one or more patents on the ADL-100 cover. Nevertheless, the majority declares

the ADL-100 provides the only alternative technology. While it is inappropriate for an appellate court to make findings, the finding by the majority is erroneous if one examines the record independently. There are other mechanisms for securing trucks to loading docks. Indeed, the Patent Office considered Kelley's Truk-Stop sufficiently different from the prior '847 patent to grant Kelley its own patent. Unfortunately for Kelley, this court earlier upheld the finding that its different structure was sufficient similar to the '847 patent to constitute infringement. 819 F.2d 1120, 2 USPQ2d 1915 (Fed. Cir. 1987). But there were other alternatives which could be substituted. In any event, the one or more patents on technology used in the ADL-100 were never asserted against Kelley, and the validity of those patents is untested. If those patents are invalid, the majority's analysis collapses. As stated in *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 668 (1969):

> [F]ederal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a *valid* patent. [Emphasis added.]

Given that Kelley has had no legal basis for bringing a declaratory judgment action challenging the unlitigated patents (never having been charged with their infringement), the majority imposes liability and overlooks the unfairness in its theory. If the unlitigated patents are significant to damages, Kelley deserves an opportunity to defend against them. A clearer denial of due process is rarely seen. The award of damages for competition with Rite-Hite's market for ADL-100s is no more supportable than an injunction against infringement of the ADL-100 patents.

If nothing else, the patent term limit provision of 35 U.S.C. § 154 is skewed by protecting the profits on goods made under one patent for infringement of another. Under the majority's decision, the 17-year terms of the ADL-100 patents are meaningless. Rite-Hite is entitled to the add-on years provided by the later '847 patent after the terms of the ADL-100 patents expire. Congress has provided the term and the basis for protection of ADL-100

restraints. An award of damages on ADL-100s based on infringement of the '847 patent expands the term of protection as well as the basis for protection. Moreover, the majority would award damages for losses connected to the ADL-100 even if the patents on that device are invalid (albeit under a slight variation of a "but-for" test). If Rite-Hite had asserted infringement of the ADL-100 patents, it would receive no lost profits based on invalid ADL-100 patents but, nevertheless, is held entitled to lost profits on ADL-100s based on the '847 patent. This construction of the statute seems patently absurd.

In short, Rite-Hite has obtained indirectly what it may or may not be entitled to recover directly by suit on the ADL-100 patents. Moreover, this was accomplished without putting the ADL-100 patents at risk to a challenge of invalidity. The unasserted patents provide no basis for sweeping the losses related to the ADL-100 into the scope of legal injury attributed to Kelley's use of the '847 invention.

The majority rejects what it called Kelley's "antitrust" arguments that the award of lost profits on the ADL-100 unduly expanded rights in the '847 patent on the rationale that this case deals only with what injuries are compensable for infringement, not with violation of antitrust laws. This rationale cannot be squared with *Ethyl Gasoline* v. *United States*, in which the Supreme Court held:

> The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another, than for the exploitation of an unpatented article, or for the exploitation or promotion of a business not embraced within the patent.

309 U.S. 436, 459 (1940) (citations omitted). *See Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 511-13 (1917).

No one argues that Rite-Hite is violating the antitrust laws. However, an award of damages for infringement of one patent based on losses of sales of a product not within the protected market violates antitrust *policies*. Under those policies, Rite-Hite is not entitled to tribute for infringement of one patent for losses in connection with a competitive product protected, if at all, only by other patents. This court has no license to elevate patent rights in the guise of damages over antitrust policies which preclude enlargement of the exclusive market provided by the '847 patent to promote and exploit the business of a patentee in goods not embraced within the patent.

I. *Reasonable Royalty is a Proper Measure of "Adequate" Damages*

Finally, Rite-Hite argues that the highest possible damages should be imposed to deter infringers and that the district court, therefore, correctly assessed a higher lost profits award in lieu of a reasonable royalty. Rite-Hite also argues that a reasonable royalty creates a compulsory license. Both points are meritless. As indicated, a finding of infringement is not dependent on a finding of negligence or culpable intent by the wrongdoer. An infringement, like a trespass, may be committed unknowingly. In such situations, the *amount* of damages manifestly can have no effect to deter an *unknowing* infringer. Basic damages, which are at issue here, fall on the innocent and the culpable to the same extent. *See Intel* v. *United States Int'l Trade Comm'n*, 946 F.2d 821, 832, 20 USPQ2d 1161, 1171 (Fed. Cir. 1991); *Thurber Corp.* v. *Fairchild Motor Corp.*, 269 F.2d 841, 845, 122 USPQ 305, 308 (5th Cir. 1959); *see also Kansas City S. Ry. Co.* v. *Silica Prods. Co.*, 48 F.2d 503, 508, 8 USPQ 476, 481 (8th Cir.), *cert. denied*, 284 U.S. 626 (1931); *Thompson* v. *N.T. Bushnell Co.*, 96 F. 238, 243 (2d Cir. 1899). *Cf. Seymour* v. *McCormick*, 57 U.S. (16 How.) at 488. The provision for trebling damages is the deterrent against deliberate infringement.

The spectre of a compulsory patent license is raised. However, a damages award calculated as a reasonable royalty gives no mandatory license. If it did, relief by way of an injunction against future use makes no sense.[21] A reasonable royalty is simply a measure of damages, not a license. *Dowagiac*, 235 U.S. at 649; *Fromson* v. *Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574-76 (Fed. Cir. 1988). The remedy Congress itself selected cannot be condemned on the ground it conflicts with Congress' views reflecting compulsory licenses. Obviously, it does not.[22] A reasonable royalty is in fact a Congressional largesse for cases where a patentee might otherwise receive only nominal damages. A patentee is now statutorily entitled to a reasonable royalty even though it has not suffered or cannot prove a financial loss to its market in patented goods.

J. *Conclusion*

The majority holds that it has balanced the interests of the patentee and the infringer. I disagree. In *Fogerty* v. *Fantasy, Inc.*, 114 S. Ct. 1023, 1030 (1994) the Supreme Court stated:

> Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same

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[21] The analysis is confused with the situation where the patentee is a licensing patentee who offers paid-up licenses to all who desire them. *See* 3 Robinson § 1058 at 331 and cases cited therein.

[22] Indeed, Congressman Lanham embraced the reasonable royalty provision as the preferred remedy on the facts of this case, stating:

> Of course, in a case of an innocent infringement, it is to be presumed that the court would assess no more than a reasonable royalty for such time as the patent was infringed by the innocent user.

92 Cong. Rec. 1857 (1946). *See also* House Hearings at 19-21.

> extent that plaintiffs are encouraged to litigate meritorious claims of infringement. . . . Thus a successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.

The same policy statement applies equally to patent law enacted under the complementary provision of Article I, section 8 of the Constitution. Challengers who have meritorious defenses to a charge of patent infringement should be encouraged to litigate them without fear of ruinous damage awards. Kelley mounted a substantial and legitimate challenge to the validity and its infringement of the '847 patent in suit. Kelley was held to be wrong on both points, but its infringement was not willful. The district court stated that "the Kelley people [acted] in the spirit of good competition" and "certainly did not intend to infringe." 629 F. Supp. 1042, 1045, 231 USPQ 160, 161. The consequence of expansion of legal injury in this case is that the patentee's major competitor, an innocent infringer, has been forced into bankruptcy by the lost profits award on unprotected goods. This result does not further the policies of the patent statute. Patentees are a favored class but this decision goes too far in the scope of protection. It is not the remedy Congress understood and intended to provide.

Commercialization of inventions in the fast changing world of today is at least as viable a purpose of the patent statute as under the prior statutes. For our patent system to fully serve its goal of promoting economic growth, innovations must make it to market during the patent term. The period of exclusivity, a monopoly in the market place, is granted to that end.

The Senate Report on the legislation that culminated in this court's creation cites the following testimony of Harry F. Manbeck, Jr., then General Patent Counsel for the General Electric Company and later Commissioner of Patents and Trademarks:

> Patents, in my judgment, are a stimulus to the innovative process, which includes not only investment in research and development but also a far greater investment in facilities for producing and distributing goods. Certainly, it is important to those who must make these investment decisions that we decrease unnecessary uncertainties in the patent system

The Federal Courts Improvement Act of 1981, S. Rep. No. 97-275, 97th Cong., 1st Sess., 6 (1981).

The Senate Report on the 1980 Reexamination statute cites the following testimony of then Commissioner of Patents and Trademarks Sidney Diamond:

> Indeed, the patent system was established to provide certain incentives for the conduct of activities critical to our economic and technological prosperity — the invention of new and improved technology, the disclosure of this technology to the public, and the investment in its commercialization.

Patent Reexamination, S. Rep. No. 96-617, 96th Cong., 2d Sess., 9 (1980). These are but two examples emphasizing the present day importance of patents as an incentive for investment in marketing the products for which the exclusive market is given. An exhaustive treatment would occupy a sizeable tome.

It cannot be disputed that Congress intended that the patent grant provide an incentive to make investments in patented products during the patent term. If a patentee is rewarded with lost profits on its established products, the incentive is dulled if not destroyed. Why make the investment to produce and market a new drug if the patent on the new discovery not only protects the *status quo* in the market but also provides lost profits for the old?

For the foregoing reasons, I would hold that an injury to the patentee's marketing of products protected only by other patents — if at all — does not fall within the grant of rights protected by the '847 patent in suit and is not compensable. Thus, I would

vacate the award of lost profits on 3,283 sales based on Rite-Hite's loss of business in ADL-100 restraints and remand for damages to be assessed on the basis of a reasonable royalty for those infringements.

III.
LEVELER SALES

I agree with the majority that under the entire market value rule, Rite-Hite is not entitled to lost profits on dock levelers, sold in conjunction with patented or unpatented restraints. However, I disagree with the majority's reasoning. The entire market value rule is based on a realistic evaluation of the commercial magnetism of the patented invention, not on whether components in a machine — or auxiliary goods — function together. I will not lengthen this already lengthy opinion but merely note that the majority proffers strained interpretations of the cited precedent. I would deny the award because the sales of levelers were not attributable to consumer *demand for the invention* of the '847 patent.

IV.
CALCULATION OF A REASONABLE ROYALTY

The district court awarded damages in the form of a reasonable royalty for 502 infringing sales based on lost profits on Rite-Hite's restraints and restraint leveler packages. This "reasonable royalty," which totals $1,045.00 per infringing restraint, is more than the price of Rite-Hite's patented MDL-55, more than 75 percent of the average net sale price of Kelley's Truk-Stop, and 33 times greater than Kelley's net profit on its entire machine. If lost profits on ADL-100's were not recoverable as such, the court said it would have *raised* the amount of the reasonable royalty to include all of Rite-Hite's anticipated profits on ADL-100 units and packages. *Rite-Hite*, 774 F. Supp. at 1540 n.22, 21 USPQ2d at 1821 n.22.

In determining a reasonable royalty, the district court started with basically wrong ideas even if ADL-100s and levelers were protected by the '847 patent. The court erroneously believed Kelley had to pay a reasonable royalty *on ADL-100 sales* if lost profits were not awarded. *Id.* This is a fundamental misunderstanding. Rite-Hite is entitled to a reasonable royalty on *Kelley's* sales of infringing devices. Rite-Hite would be entitled to a reasonable royalty on those sales even if it made no sales of a competing product. Further, where a patentee is not entitled to lost profit damages, lost profits may not, in effect, be awarded by merely labelling the basis of the award a reasonable royalty. *See SmithKline Diagnostics, Inc.* v. *Helena Labs. Corp.*, 926 F.2d 1161, 1165, 1168, 17 USPQ2d 1922, 1925, 1928 (Fed. Cir. 1991) (rejecting SKD's proposed use of its lost profits figure as a "reasonable royalty").

A "reasonable royalty" is a hypothetical royalty for the *use of the patented technology by the infringer*, calculated as if the parties negotiated at arm's length as a willing licensor and a willing licensee on the date when the infringement began. *State Indus.*, 883 F.2d at 1580, 12 USPQ2d at 1031; *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1079, 219 USPQ 679, 682 (Fed. Cir. 1983). While frequently spoken of as willing negotiations, *Beatrice Foods Co.* v. *New England Printing & Lithographing Co.*, 923 F.2d 1576, 1580, 17 USPQ2d 1553, 1556 (Fed. Cir. 1991); 5 Donald S. Chisum, *Patents*, § 20.03[4][b] (1992), the result has more of the character of a forced settlement where neither party gets all it would wish.

The focus of a reasonable royalty determination is on the value of the invention in the marketplace. As the statute states, a reasonable royalty is an award "for the use of the invention by the infringer." 35 U.S.C. § 284. Rite-Hite's lost profits on ADL-100s and levelers are not factors in calculating that value for the same reasons lost profits are not awardable for the goods. Neither is part of the exclusive market granted by the '847 patent. The '847 patent

may not be used "for the exploitation or promotion of a business not embraced within the patent." *Ethyl Gasoline*, 309 U.S. at 459. A royalty based on unprotected goods unlawfully exploits the patent. I would, therefore, remand with instructions to disregarded injury to this part of Rite-Hite's business in determining a reasonable royalty.

A reasonable royalty requires a balancing of the interests of the parties. It would be proper, therefore, to consider Rite-Hite's policy of not licensing direct competitors like Kelley, but this factor cannot justify the rate here. *See Panduit*, 575 F.2d at 1164, 197 USPQ at 736. In particular, Rite-Hite's claim that Kelley needed a license of the '847 technology to make any restraint is clearly fallacious. The ADL-100 itself did not use that technology and there were numerous non-infringing mechanical alternatives. That they were not yet commercialized is irrelevant respecting a royalty. Kelley would likely have turned to the other technology to design around the '847 invention if the royalty were too high.

It is apparent that the district court limited its assessment to Rite-Hite's side of the hypothetical negotiating table rather than to balance the interests of both parties. Kelley presented extensive evidence of royalty rates prevalent in the industry, which is relevant to determining a *reasonable* royalty. *Georgia-Pacific Corp.* v. *United States Plywood Corp.*, 318 F. Supp. at 1120, 166 USPQ at 238 (factor 2: "The rates paid by the licensee for the use of other patents comparable to the patent in suit."). This evidence included a 0.9 percent royalty paid by Rite-Hite to Kelley to settle a suit for infringement of Kelley's leveler patents. Although licenses extracted under the penumbra of threatened litigation as to the validity and/or infringement are, as the district court stated, "not an accurate gauge of a reasonable royalty," *Rite Hite*, 774 F. Supp. at 1535, 21 USPQ2d at 1817, this rule does not apply where, as here, validity and infringement appear to have been settled in the licensor's favor when the license was entered. *See Snellman* v. *Ricoh Co.*, 862 F.2d 283, 289, 8 USPQ2d 1996, 2001 (Fed. Cir.

1988), *cert. denied*, 491 U.S. 910 (1989). The district court also dismissed other testimony favorable to Kelley as being "of limited relevance, because it is based upon royalties contained in settlement agreements." Yet two of these licenses (Abon/MHW and Metz/Serco) were not the product of litigation. Rite-Hite's current CEO (Mike White) took a license under the '847 patent when he bought Rite-Hite from his father. Although the district court found this intra-family deal "too dissimilar" from a true hypothetical negotiation, White himself testified that the transaction was arms length and that he paid a fair price for the license.

The evidence of record negates a finding that the dock equipment industry is so lucrative that net profits in the 50-75 percent range could be anticipated. Rite-Hite's net profits during the period of infringement were in the 6-10 percent range and Kelley's only 2.3 percent. This evidence of actual profitability forcefully negates the anticipation by either party of profits of 50-75 percent on their devices and was improperly disregarded in the district court's determination of what royalty Kelley would have agreed to pay. *Lindemann Maschinenfabrik*, 895 F.2d at 1408, 13 USPQ2d at 1875 (characterizing as "absurd" expert testimony that infringer "would agree to pay a royalty in excess of what it expected to make in profit"); *Hughes Tool Co.* v. *Dresser*, 816 F.2d 1549, 1558, 2 USPQ2d 1396, 1403-04 (Fed. Cir. 1987); *Trans-World Mfg. Corp.* v. *Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568, 224 USPQ 259, 269 (Fed. Cir. 1984). Although this court has sanctioned royalty awards that exceeded the infringer's *actual* net profits, we have done so only when there was evidence that the infringer *actually anticipated* greater net profits. *Snellman*, 862 F.2d 283, 8 USPQ2d 1996; *TWM Mfg. Co.* v. *Dura Corp.*, 789 F.2d 895, 229 USPQ 525 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986). Kelley is not guaranteed a profit, of course, but anticipated profit is a factor in hypothetical negotiations. *Hanson*, 718 F.2d at 1081, 219 USPQ at 684 ("a reasonable royalty would leave an infringer with reasonable profit"); *Panduit*, 575 F.2d at 1164, 197 USPQ at 736

(court should determine "the customary profit allowed licensees in the electrical duct industry"); *see also Trans-World Mfg. Corp.*, 750 F.2d at 1568, 224 USPQ at 269. A royalty which on any reasonable projections respecting the innocent infringer's business would be confiscatory violates that balance. It is simply beyond reality to infer that the management for the five hundred employee-owners of Kelley would have negotiated a royalty which, it was evident at the time, would destroy their business and jobs.[23]

Although the determination of a fair and reasonable royalty is a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge, *Fromson*, 853 F.2d at 1574, 7 USPQ2d at 1612, the finding in this case of a reasonable royalty in the amount of $1,045 per unit on a $1,345.79 item of which the patented '847 technology was merely a replaceable feature should be vacated because of legal error in the factors and evidence considered.

V. CONCLUSION

This court was created to bring uniformity to the law; but where uniform precedent exists, it was given no mandate to ignore established law. It was not given a blank legal slate on which to write greatly enlarged property rights for patentees. In view of this court's exclusive jurisdiction, however, the majority has effectively set new precedent for all awards of damages in future patent cases.[24]

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[23] Here, the amount of damages for nonwillful infringement awarded or proposed to be awarded as a royalty is so great that it has forced Kelley to file for bankruptcy. Kelley, an employee-owned business, would now likely be out of business had we not granted its motion for stay of execution of the district court's judgment. This case therefore illustrates the mischief and misery that can accompany the over enforcement of patents rights.

[24] Another case awarding damages on the patentee's unpatented goods is already waiting in the wings.

The majority justifies its expansion of patent protection with the explanation that the Supreme Court has provided no definitive ruling on the proper scope of damages. I conclude the Supreme Court has repeatedly stressed that actual damages for patent infringement must be based on interference with the patentee's market for its own goods embodying the invention in suit. Thus, I must respectfully dissent.

Nos. 92-1206, -1260

United States Court of Appeals for the Federal Circuit

RITE-HITE CORPORATION, ACME DOCK SPECIALISTS, INC., ALLIED EQUIPMENT CORP., APPLIED HANDLING, INC., ANDERSON MATERIAL HANDLING CO., BLOCK-DICKSON, INC., ROBERT LUND d/b/a HMH COMPANY, HOJ ENGINEERING & SALES CO., INC., JOHNSON EQUIPMENT CO., JOHNL & ASSOCIATES, INC., KELLER EQUIPMENT CO., INC., LOADING DOCK EQUIPMENT, INC., METRO DOCK SPECIALISTS, INC., MCCORMICK EQUIPMENT COMPANY, INC., MID-SOUTH DOCK SYSTEMS, INC., HARRY MONOHAN, NIEHAUS INDUSTRIAL SALES, INC., NORTHWAY MATERIAL HANDLING CO., INC., PEMCO MATERIAL HANDLING, INC., R.B. CURLIN, INC., RICE EQUIPMENT COMPANY, STOKES EQUIPMENT COMPANY, INC., ROBERT SOPER LIMITED, TIMBERS & ASSOCIATES, INC., TODD EQUIPMENT CORPORATION, THAYER SYSTEMS, INC., and W.E. CARLSON CORPORATION,

Plaintiffs/Cross-Appellants,

v.

KELLEY COMPANY, INC.,

Defendant-Appellant.

NEWMAN, *Circuit Judge*, with whom *Circuit Judge* RADER joins, concurring in part and dissenting in part.

The court today takes an important step toward preserving damages as an effective remedy for patent infringement. Patent infringement is a commercial tort, and the remedy should compensate for the actual financial injury that was caused by the tort. Thus I concur in the majority's result with respect to entitlement to damages for lost sales of the ADL-100.

Yet the court draws a new bright line, adverse to patentees and the businesses built on patents, declining to make the injured claimants whole. The majority now restricts *en banc* the patentee's previously existing, already limited right to prove damages for lost sales of collateral items — the so-called "convoyed" sales. Such remedy is now eliminated entirely unless the convoyed item is "functionally" inseparable from the patented item. The court thus propounds a legally ambivalent and economically unsound policy, authorizing damages for the lost sales of the ADL-100 but not those dock levelers that were required to be bid and sold as a package with the MDL-55 and the ADL-100.

The district court, in contrast, took a straightforward approach to the damages determination. The district court awarded compensatory damages for (1) Rite-Hite's lost sales of the MDL-55 and the ADL-100 models of truck restraint, recognizing the commercial and competitive relationships of these models and the infringing device; (2) Rite-Hite's lost sales of 1,692 dock levelers that were bid and sold in packages with the truck restraints, recognizing that the dock leveler business was a significant factor in Kelley's infringing activity; and (3) the sales-level losses incurred by the independent sales organizations (the ISOs), recognizing their position as geographically exclusive selling arms of the patentee.

The majority affirms only the first of these three areas of pecuniary injury, reversing the district court's damages award in the other two areas. I know of no law or policy served by eliminating recovery of actual damages when patents are involved. In holding that those injured by the infringement shall not be made whole, the value of the patent property is diminished. The majority's half-a-loaf award, wherein the patentee and the other plaintiffs are denied recovery of a significant portion or all of their proven damages, is an important policy decision. Thus, although I join Parts A-I and B of the majority opinion, I must dissent from Parts A-II and A-III. With respect to Part A-IV, I agree that the district court's determination of the royalty rate should not be

disturbed, but I do not share the majority's view as to the royalty base.

I. THE LOST PROFITS FOR THE ADL-100

I agree that lost profits on the lost sales of the MDL-55 and the ADL-100 are the proper measure of compensatory damages for Kelley's infringement of Rite-Hite's '847 patent. The considerations with respect to the ADL-100 are those of general damages: directness, foreseeability, duty.

Patent damages must be viewed with a practical eye in order to implement the policy of damages law. It is not the usual situation that an infringing device takes sales from a patentee's line of more than one product, not all of which were made under the patent that is infringed. However, this does not change the application of 35 U.S.C. §284. It may be simply differences in inventorship, or the timing of the discoveries, that places inventions in different patents of the same patent owner. Such a situation is not unusual. An example may be the case at bar, wherein Rite-Hite disclosed and claimed the infringed restraint in a later-filed patent having a different inventive entity than the patent on the ADL-100. Examples abound in the chemical field, where inventors may create related chemical compounds, obtain patents as the research progresses, and commercialize one of them. Should the infringer divert sales from another member of this series, according to Kelley, the only damages available would be a royalty at a sufficiently low rate to provide a profit to the infringer. The patent law is not prisoner of such irrational economics.

II. THE LOST CONVOYED SALES OF DOCK LEVELERS

A. Principles of Damages Law

The basic principle of damages law is that the injured party shall be made whole. On the facts on which the district court awarded damages for certain lost sales of dock levelers, the relationships

were direct, causation was proved, the scope of recovery was narrow, and the circumstances were unusual. Reversing the district court, the majority holds that if the patented and convoyed items also have a separate market, there can never be recovery for the lost sales of the convoyed items. I do not believe that such a rule is necessary, or correct, in patent cases.

The majority adopts the rule for patent cases that lost "convoyed" sales cannot be recompensed, whatever the directness of the injury and whatever the weight of the proof, unless the thing convoyed is a "functional" part of the thing patented. Heretofore, the question of recovery for lost sales of collateral items was a matter of fact and proof, the court looking at the closeness of the relationship between the items and the quality of the proof, cognizant of the policy of setting reasonable limits to liability.

The district court awarded damages only for those lost dock leveler sales that were bid and sold in a package with the truck restraint, and for which Rite-Hite proved it had competed with Kelley for the same customers, presenting transaction-by-transaction evidence. The district court's finding that Rite-Hite would have sold an additional 1,692 dock levelers, in specifically proven restraint-leveler packages, is not disputed. It is not disputed that there was a direct, causal, foreseeable relationship between Kelley's infringement and these lost sales. This court's decision to withhold compensation for these specifically proven lost sales is a decision of policy, not law, for damages law supports compensation on these proofs. Refusing a remedy for proven injury caused by wrongdoing is an unusual judicial policy. It is not required by patent law, and it contravenes the rule that the injured party shall be made whole. Thus my colleagues carve a patent-based exception into the rule of general damages, refusing to award compensatory damages that have been proved.

The purpose of tort damages is to place the wronged party, as closely as possible, in the financial position that it would have occupied but for the wrong. The patent statute requires that

damages for infringement shall be adequate to compensate for the losses caused by the infringement:

35 U.S.C. §284. Damages

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interests and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The statute codifies the general rule of damages resulting from wrongful economic behavior:

> And where a legal injury is of an economic character, "[t]he general rule is, that when a wrong has been done, and the law gives a remedy, the compensation shall be equal to the injury. The latter is the standard by which the former is to be measured. The injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed."

Albemarle Paper Co. v. Moody, 422 U.S. 405, 418-19 (1975) (quoting *Wicker v. Hoppock*, 73 U.S. (6 Wall.) 94, 99 (1867)). This rule is the "cardinal principle" of damages law:

> The cardinal principle of damages in Anglo-American law is that of *compensation* for the injury caused to plaintiff by defendant's breach of duty. . . .
>
> . . . .
>
> . . . The primary notion is that of repairing the plaintiff's injury or of making him whole as nearly as that may be done by an award of money. The "remedy [should] be commensurate to the injury sustained."

4 Fowler v. Harper et al., *The Law of Torts* §25.1, 490, 493 (2d ed. 1986) (quoting *Rockwood v. Allen*, 7 Mass. 254, 256 (1811) (Sedgwick, J.)) (alteration in the original, footnotes omitted). *See also* Charles T. McCormick, *Handbook on the Law of Damages*, §44 (1985):

> [The law] will only seek, as near as may be, by awarding money compensation, to place you in the same position as respects your pocketbook as you would have occupied if no wrong had taken place.

The threshold condition is embodied in 35 U.S.C. §284 and its requirement that "the court shall award the claimant damages adequate to compensate." The majority correctly applied this rule to Rite-Hite's lost sales of the ADL-100 model of truck restraint, but inappropriately rejected the district court's recognition of the lost sales of the dock levelers.

The district court recognized that the purpose of the award of damages for patent infringement is to compensate the claimant for the losses incurred. 35 U.S.C. §284. This is a question of fact, reviewable for clear error. For convoyed sales there are issues of the directness of the injury and associated policy implications, but there is no prohibition in legal principle against recovery of the actual economic loss caused by the infringement. Indeed, this is the most fundamental of damages principles. *See* William M. Landes and Richard A. Posner, *The Economic Structure of Tort Law* (1987).

The Supreme Court has well stated the requirement that losses due to patent infringement shall be fully recompensed:

> The question to be asked in determining damages is "how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the Infringer not infringed, what would the Patent Holder-Licensee have made?"

Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507, 141 USPQ 681, 694 (1964) (quoting *Livesay Window Co. v. Livesay Industries, Inc.*, 251 F.2d 469, 471 (5th Cir. 1958)). The Court recognized that damages in patent cases are general damages:

> [T]he present statutory rule is that only "damages" may be recovered. These have been defined by this Court as "compensation for the pecuniary loss he has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts." They have been said to constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred."

Aro Manufacturing, 377 U.S. at 507, 141 USPQ at 694 (citations omitted).

The Federal Circuit heretofore conscientiously recognized that the rules of general damages applied to patent infringement cases. "*E.g., Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1064, 219 USPQ 670, 674-75 (Fed. Cir. 1983) (quoting *Aro Manufacturing*):

> [Damages adequate to compensate for the infringement constitute] "'the difference between [the patent owner's] pecuniary condition after the infringement and what his condition would have been if the infringement had not occurred.'"

Fromson v. Western Litho Plate & Supply Co., 853 F.2d 1568, 1574, 7 USPQ2d 1606, 1612 (Fed. Cir. 1988):

> The statute . . . mandates that damages shall be "adequate to compensate" the patent owner for the infringement. That requirement parallels the criterion long applicable in other fields of law.

See also Paper Converting Machine Co. v. Magna-Graphics Corp., 745 F.2d 11,21,223 USPQ 591, 598 (Fed. Cir. 1984); *Weinar v. Rollform. Inc.*, 744 F.2d 797, 807, 223 USPQ 369, 375 (Fed. Cir. 1984), *cert. denied*, 470 U.S. 1084 (1985); *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1326, 5 USPQ2d 1255, 1260 (Fed. Cir. 1987); *Bio-Rad Labs, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604, 616, 222 USPQ 654, 663 (Fed. Cir.), *cert. denied*, 469 U.S. 1038 (1984); *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 553, 222 USPQ 4, 7 (Fed. Cir. 1984).

A wrongdoer is, simply put, responsible for the direct, foreseeable consequences of the wrong. Indeed, in *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655, 217 USPQ 1185, 1188 (1983), the Court referred to "Congress' overriding purpose of affording patent owners complete compensation," the Court observing that:

> When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly.

461 U.S. at 653, 217 USPQ at 1187. Thus the Court reiterated that limitations to recovery for patent infringement are not to be inferred.

B. The "Package" Sales of Dock Levelers and Truck Restraints

The district court found that Kelley "developed its Truk Stop restraint both to capture part of the newly-developed restraint market and to avoid losing leveler sales." *Rite-Hite Corp. v. Kelley Co.*, 774 F. Supp. 1514, 1522, 21 USPQ2d 1801, 1806 (E.D. Wis. 1991). The district court discussed customers' requests for "package bids for the simultaneous installation of vehicle restraints and dock levelers, especially for new dock installations." *Id.* at 1530, 21 USPQ2d at 1812. The court found that customers "almost invariably purchased both items from the same manufacturer." *Id.* The court also referenced to testimony that Kelley representatives told some customers that Kelley would void its warranties on its dock levelers if they were used with a Rite-Hite restraint, *id.*,

Kelley itself linking sale of the dock levelers to the infringing restraints.

The district court assessed the damages caused by Kelley's infringement after meticulous review of an extensive body of evidence. The elements of causation and foreseeability, although fully satisfied on the evidence, are scarcely at issue. It is not disputed that these 1,692 dock levelers were sold, warranted, installed, and used together with the truck restraints. Kelley's actual "package" sales of dock levelers and infringing restraints were the only convoyed sales for which compensation was awarded.

These dock leveler sales were as direct a target of the infringement as were the ADL-100 sales, and the quality of the proofs was equally high. The evidence shows the same transaction-by-transaction losses of sales to Kelley for the dock levelers as for the ADL-100 truck restraints, indeed in the same bid and sale packages. Precedent previously recognized that compensation may be appropriate when the items are sold together, whether or not they also have separate markets. *See TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 229 USPQ 525 (Fed. Cir. 1986) (damages awarded for lost sales of unpatented wheels and axles that were sold with patented suspension systems); *Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 218 USPQ 481 (Fed. Cir. 1983) (royalty damages assessed based on sales of unpatented combines and patented corn heads).

Recovery of damages for lost "convoyed" sales has always required a high standard of proof, lest remote and speculative claims be opportunistically pressed. However, it is not correct to hold that recovery is never possible unless the relationship of the patented and convoyed products is such that the only and necessary use is as a "single functioning unit." Indeed, even the majority's new requirement is met in this case. These specific dock levelers were not sold separately because the customer or Kelley required that they be sold together; and it is undisputed that they are used together.

The correct question is not whether the infringing truck restraint was part of a larger combination whereby the truck restraint could not function without the dock leveler, or whether the truck restraint or the dock leveler also had an independent market and use. The correct rule was stated in *Leesona Corp. v. United States*, 599 F.2d 958, 974, 202 USPQ 424, 439 (Ct. Cl.), *cert. denied*, 444 U.S. 991 (1979), that

> it is not the physical joinder or separation of the contested items that determines their inclusion in or exclusion from the compensation base, so much as their financial and marketing dependence on the patented item under standard marketing procedures for the goods in question.

The sales of dock levelers and truck restraints met this criterion.

As the Court reiterated in *Aro Manufacturing*, and in *General Motors v. Devex*, general damages in patent cases are whatever damages the plaintiff can prove. The history of the 1946 enactment reports this legislative purpose:

> The object of the bill is to make the basis of recovery in patent infringement suits general damages, that is, any damages the complainant can prove, not less than a reasonable royalty, together with interest from the time the infringement occurred, rather than profits and damages.

Report of the Senate Subcommittee on Patents, S. Rep. No. 1503, 79th Cong., 2d Sess. 1, *reprinted in* 1946 U.S. Code Cong. Serv. 1386, 1387. The record shows that Kelley foresaw the potential loss of dock leveler sales, and that this contributed to Kelley's infringement of Rite-Hite's truck restraint patent. The record shows Kelley and Rite-Hite both bidding on the same restraint/leveler packages. The evidence established that Rite-Hite's loss of 1,692 dock leveler sales was the direct, foreseeable, and indeed intended result of Kelley's infringement.

Kelley bore the risk that if it was found to infringe Rite-Hite's restraint patent, it would be liable for compensatory damages on the restraint/leveler packages. By eliminating recovery for this proven loss, this court makes a policy decision contrary to the principles of compensatory damages. Heretofore Federal Circuit precedent treated lost convoyed sales as a matter of fact and proof. I discern no clear error or discretionary abuse in the district court's award of actual damages for these specific lost sales of restraint/leveler packages.

III. THE INJURY TO THE ISOs

Twenty-six of the plaintiffs are small businesses or individuals who were directly injured by the infringement. Some of these plaintiffs had previously brought a separate action against Kelley, the district court consolidating these actions. The district court's award of the damages to these plaintiffs has not been shown to be clearly erroneous, and I would affirm it.

A. *The Position of the ISOs*

Adam Smith observed that people work most effectively when they have a personal stake in the fruits of their labor. That is apparently how Rite-Hite structured its business. The ISOs were not "employees," but independent entities. They were responsible for 70% of Rite-Hite's sales. They were not distributors, and most of them were not resellers. They were part of the make/sell activity that was conducted before, not after, the first sale. The issue of their entitlement to the damages that they proved requires objective evaluation, not summary pigeonholing.

Indeed, the ISOs' portion of the injury caused by the infringement is recoverable even on the majority's view of the position of the ISOs in the "original ISO contract," majority op. at 26, which granted the ISOs the right "to solicit sales in the [exclusive] Territory." The majority states that this commercial relationship

was unchanged in any substantive way by the new agreement whereby Rite-Hite designated the ISOs as exclusive sales "licensees." It is not necessary to decide the nuances of this contractual relationship, for the losses experienced at the sales level are compensable. If the ISOs were simply sales agents, as Kelley argues, then Rite-Hite is the seller of the goods. If these plaintiffs do not have "standing," as the majority states, because the lost sales were made by Rite-Hite, not the ISOs, then Rite-Hite is entitled to these damages. Thus, if compensation is not owed to the ISOs, it is owed to Rite-Hite.

Witnesses at the damages trial explained that the profits from Rite-Hite's manufacture and sale of truck restraints were calculated at both the manufacturing level and the sales level. Rite-Hite made about 30% of its sales through its own sales organizations, and 70% of its sales through the ISOs, which were assigned geographically exclusive territories. The district court awarded damages in accordance with which plaintiffs bore the losses, at the manufacturing and the sales levels. The majority apparently recognizes the recovery by Rite-Hite for the sales it made through its own selling arms, but not for those obtained by the ISOs.

The majority may have misunderstood the commercial structure, for it continues the loose reference to Rite-Hite's manufacturing-level price as a "wholesale" price, although the lost sales to the customer — the price at which Kelley and Rite-Hite competed — was not at this manufacturing level of $1,000-1,500, but in the $2,500-3,000 range for the ADL-100. This price included both the manufacturing-level costs and profit and the sales-level costs and profit. Indeed, the district court drew this distinction, although not for the purpose of excluding recovery of sales-level losses, but for the purpose of distinguishing the profits lost at each level. Analyzing the evidence, the district court limited the recovery at the sales level to one third of that claimed, disallowing claims for individual salesmen's commissions.

The trial court has substantial discretion in determining damages. In *State Industries, Inc. v. Mor-Flo Industries, Inc.*, 883 F.2d 1573, 12 USPQ2d 1026 (Fed. Cir. 1989), *cert. denied*, 493 U.S. 1022 (1990), this court recognized that

> the only limit on [the district court's] discretion in selecting a remedy is that it be adequate to compensate for the damages suffered as a result of the infringement.

Id. at 1577, 12 USPQ2d at 1029. This deference that the judicial process accords to the trial court's assessment of damages recognizes the fact-dependency of just compensation. In *Perkins v. Standard Oil Co.*, 395 U.S. 642 (1969), the Court looked at the chain of causation and observed that "Perkins was no mere innocent bystander; he was the principal victim of the price discrimination." *Id.* at 649-50. So too were the ISOs a principal victim of the infringement, for they and Rite-Hite sold the goods whose sales were lost due to the infringement.

B. *The ISOs as Sales Agents*

The purpose of legal remedy is the recovery of damages by those injured by the tortious acts of another, provided of course that policy-based criteria are met. *See, e.g., Illinois Brick Co. v. Illinois*, 431 U.S.720 (1977) (indirect purchasers generally do not have antitrust standing because of the risk of double recovery or the difficultly in apportioning damages). The ISOs and Rite-Hite are not subject to similar disabilities. Analogously to the Seventh Circuit's explanation in *Nelson v. Monroe Regional Medical Center*, 925 F.2d 1555, 1563 (7th Cir.), *cert. dismissed*, 502 U.S. 903 (1991), that standing in antitrust cases follows the causation requirement of common law torts, standing in patent infringement cases follows the same extensive jurisprudence.

Kelley argued at trial, as it does here, that the ISOs can not recover damages because they were not exclusive patent licensees. The district court thoroughly explored the relationships between

Rite-Hite and the ISOs. The ISOs were sales agents with certain exclusive rights and exclusive territories, with some exceptions for direct sales by Rite-Hite. Since they are not suing independently of the patentee, there is no relevance to those cases which hold that a non-exclusive licensee can not sue in its own name. When the patentee is joined as a party, as Rite-Hite is here, and the licensee has an exclusive right to make, use, or sell, the licensee has standing to recover for its own injury. In *Western Elec. Co. v. Pacent Reproducer Corp.*, 42 F.2d 116, 119, 5 USPQ 105, 106 (2d Cir.), *cert. denied*, 282 U.S. 873 (1930), the court explained that a less than fully exclusive licensee must join the patentee in any suit for infringement, while a fully exclusive licensee, like an assignee, can sue in its own name (citing *Waterman v. Mackenzie*, 138 U.S. 252, 256 (1891)). In this case the patentee is a party to the suit, thus removing the risk of multiple suits, of which Kelley makes much. In *Weinar v. Rollform, Inc.*, 744 F.2d 797, 807, 223 USPQ 369, 374-75 (Fed. Cir. 1984) this court stated that "two parties sharing the property rights represented by a patent may have their respective property rights protected by injunction and each, when properly joined in a suit, may be entitled to damages." In *Innis, Speiden & Co. v. Food Machinery Corp.*, 2 F.R.D. 261, 265, 53 USPQ 330, 334 (D. Del. 1942) the court explained that when a licensee is granted an exclusive right to some part of the patent grant, in that case the geographically exclusive right to sell the patented product in Florida, the licensee must be permitted to exclude others from trespassing upon his right, lest he "be in the position of one who has an exclusive easement across Blackacre but could not enjoin trespassers who persisted in impairing his easement." *Id.* at 264 n.2, 53 USPQ at 333 n.2.

Thus if the ISOs are viewed as sales agents instead of licensees, either their sales exclusivity suffices to permit them to join with Rite-Hite in this suit, or Rite-Hite as principal can recover on their behalf.

C. *General Damages Theory*

The jurisprudence of tort damages illustrates myriad relationships between the wrongdoer and the injured party, from which there have evolved general criteria that apply damages law and policy. Precedent deals with the criteria of directness of the injury, foreseeability, and duty, derived from policy considerations whereby the public interest in remedying wrong is balanced with the public interest in placing reasonable limits on liability. Applying these rules, the ISOs were a direct and foreseeable victim of the infringement. Their recovery is not barred by statute or policy. Their entitlement is a question of fact and proof, applying the law and policy of damages.

Much of the evidence at trial, of head-to-head competitive bids against Kelley, was presented by the ISOs:

> Each of plaintiffs' claim files contains several documents pertaining to a single transaction or series of transactions with a single customer. The files include deposition *testimony from a member of a Rite-Hite sales organization regarding a sale that Rite-Hite claims to have lost on account of an infringing Kelley sale* .... According to plaintiffs' expert witness, accountant Ronald Beckman, every claim file regarding transactions in which plaintiffs seek lost profit damages contains testimony that: (1) prior to the Kelley sale, *Rite-Hite salespersons* had solicited the Kelley customer for Rite-Hite vehicle restraints, and (2) vehicle restraints from other manufacturers had not been bid or had been ruled out by the customer because of perceived product problems .... PDTX-143 specifically itemizes 169 cases in which *plaintiffs' salespersons testified* that they had initially convinced the customer to purchase a restraint before the customer ultimately purchased from Kelley.

Rite-Hite v. Kelley, 774 F. Supp. at 1525-26, 21 USPQ2d at 1809 (emphases added). The evidence was extensive and uncontra-

dicted, that the injury to the ISO plaintiffs was directly and foreseeably caused by the infringement. The legal insulation of a wrongdoer from responsibility for its acts is rare in the law, requiring sound basis in public policy. In "The New Property," 73 Yale L.J. 733 (1964), Professor Reich discusses the evolution of protection of property rights as characteristic of a just society.

The provision of adequate remedy for patent infringement is fundamental to a viable patent law. The district court's damages rulings are not in clear error, and I would sustain them.

RITE-HITE CORP., ACME DOCK SPECIALISTS, INC., ALLIED EQUIPMENT CORP., APPLIED HANDLING, INC., ANDERSON MATERIAL HANDLING CO., BLOCK-DICKSON, HMH CO., HOJ ENGINEERING & SALES CO., JOHNSON EQUIPMENT CO., JOHNL & ASSOCIATES, INC., KELLER EQUIPMENT CO., INC., LOADING DOCK EQUIPMENT, METRO DOCK SPECIALISTS, MCCORMICK EQUIPMENT CO., MID-SOUTH DOCK SYSTEMS, MONOHAN EQUIPMENT CO., NIEHAUS INDUSTRIAL SALES, INC., NORTHWAY MATERIAL HANDLING CO., PEMCO, R.B. CURLIN, INC., RICE EQUIPMENT CO., STOKES EQUIPMENT CO., SOPER'S, TIMBERS & ASSOCIATES, INC., TODD EQUIPMENT CORP., THAYER SYSTEMS, W.E. CARLSON CORP.,

Plaintiffs,

v.

KELLEY COMPANY, INC.,

Defendant

Civil Action Nos. 83-C-0434, 89-C-0190

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF WISCONSIN

774 F. Supp. 1514; 21 U.S.P.Q.2D (BNA) 1801;
34 Fed. R. Evid. Serv. (Callaghan) 710

October 7, 1991, Decided

October 7, 1991, Filed

JOHN W. REYNOLDS, Senior United States District Judge.

DECISION AND ORDER

I. INTRODUCTION

This opinion addresses issues raised in the damages phase of a bifurcated patent infringement action. On March 22, 1983,

Rite-Hite Corporation ("Rite-Hite") commenced this action in which it alleges that Kelley Company, Inc.'s ("Kelley") Truk Stop vehicle restraint infringed Rite-Hite's U.S. Patent 4,373,847 ("the '847 patent"). The '847 patent was issued on February 15, 1983, and covers a device for restraining trucks to loading docks during the loading or unloading process.

This action was bifurcated for trial purposes. After a hearing on the issue of liability, this court found on May 29, 1985, that the Kelley Truk Stop's rack-and-pinion mechanism for raising a vertical hook was equivalent to the ratchet-and-pawl mechanism covered by the '847 patent and that Kelley had therefore non-willfully infringed the '847 patent. On March 5, 1986, this court issued its findings of fact, conclusions of law, and judgment enjoining Kelley from further infringements and holding Kelley liable to all the plaintiffs for infringement damages plus prejudgment interest. The court found that the Rite-Hite MDL-55 unit, which utilized the patent in suit, was a commercially successful product and that the '847 patent was valid. Finally, this court stayed the injunction pending Kelley's appeal. These rulings were reported in *Rite-Hite Corp. v. Kelley*, 629 F.Supp. 1042, 231 U.S.P.Q. 161 (E.D. Wis. 1986), *aff'd*, 819 F.2d 1120 (Fed. Cir.).

On December 2, 1983, shortly after this action was filed, several independent Rite-Hite sales representative organizations ("ISO's") moved to intervene in this case, contending that their "Sales Representative Agreements" and "Dok-Lok Supplement" agreements with Rite-Hite, executed during the pendency of this lawsuit, made them exclusive licensees of the '847 patent. On August 31, 1984, this court permitted the ISO's to intervene in the liability and damages phases of the trial. On February 15, 1989, seven ISO's who had not yet intervened in this action brought a separate action entitled Block-Dickson, Inc. v. Kelley Co., Case

No. 89-C-0190 (E.D. Wis.), which was consolidated with this action by stipulation of the parties on April 3, 1989.[1]

With Rite-Hite and the ISO's as plaintiffs, the trial on the damages phase of this action commenced on November 7, 1990, and continued until December 7, 1990. After submitting proposed findings of facts and conclusions of law, the parties presented their closing arguments on December 19, 1990.

Before the court at this damages phase of the litigation are the following primary issues: (1) whether the plaintiff ISO's are entitled to recover damages; (2) whether the plaintiffs have proved that they lost sales on account of Kelley's infringing competition of (a) vehicle restraints and (b) dock levelers; (3) whether plaintiffs have proved lost profits damages to a reasonable probability; (4) whether the plaintiffs may recover lost profits damages under Title 35 United States Code 284 for lost sales of (a) those vehicle restraints not embodying the '847 patent, or (b) dock levelers, which also do not embody the '847 patent; (5) whether plaintiffs are entitled to a reasonable royalty for those lost sales on which they are not awarded lost profits damages, and if so, (6) what royalty rate is appropriate; and (7) what rate of prejudgment interest is appropriate.

For the reasons below, this court awards Rite-Hite as a manufacturer the wholesale profits that it lost on lost sales of ADL-100 restraints, MDL-55 restraints, and restraint-leveler packages on account of Kelley's sale of infringing Truk Stop restraints. This court also awards to Rite-Hite as a retailer and to the plaintiff ISO's reasonable royalty damages on lost ADL-100, MDL-55, and restraint-leveler sales caused by Kelley's infringing sales.

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[1] The seven ISO's whose case was consolidated with this action were Block Dickson, Inc.; HMH Co.; Mid-South Dock Systems, Inc.; Larry Monohan; Pemco Material Handling, Inc.; Robert Soper Ltd.; and Thayer & Associates, Ltd.

II. FINDINGS OF FACT

Much of the background of this case is recounted in the trial and appellate opinions on liability issues. That background will be retold and extended in this section only to the extent necessary to convey a complete understanding of issues presented in this damages phase of the case. This section addresses the following topics: (a) parties and jurisdiction, (b) overview of the vehicle restraint and dock leveler market, (c) Rite-Hite's development of vehicle restraints and the significance of the '847 patent, (d) Rite-Hite's marketing of vehicle restraints, (e) Kelley's development and marketing of the infringing Truk Stop restraint, (f) background of the Rite-Hite sales organizations and the exclusivity of their restraint licenses, (g) the period of infringement and the number of infringing units sold, (h) plaintiffs' lost restraint sales, (i) plaintiffs' lost dock leveler sales, (j) plaintiffs' damages, (k) the reasonable royalty rate, and (l) plaintiffs' claims for lost profits due to price cuts on actual sales.

A. *Parties and Jurisdiction*

Plaintiff Rite-Hite is a Wisconsin corporation with its principal place of business at Brown Deer, Wisconsin. Rite-Hite is the exclusive licensee of the '847 patent, and owner, by assignment, of all causes of action and claims for relief arising out of any infringement of that patent. The other plaintiffs are independent Rite-Hite sales organizations (ISO's) with principal places of business located throughout the country.[2] Defendant Kelley is also

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[2] The sales organizations owned by Rite-Hite are referred to as "Rite-Hite owned sales organizations." The sales organizations that marketed Rite-Hite products but were not owned by Rite-Hite are referred to as "ISO's" (independent sales organizations). These two classes of sales organizations are collectively referred to as "Rite-Hite sales organizations" or occasionally (in Rite-Hite documents) as "Rite-Hite sales representatives." This opinion uses the term "sales organization" rather than "sales representative" in order to distinguish the organizations from the salespeople/sales representatives whom they employ.

a Wisconsin corporation having a principal place of business at Milwaukee, Wisconsin.

The court has subject matter jurisdiction over this action under 28 U.S.C. § 1338(a), and this court is the proper venue under 28 U.S.C. § 1400(b).

B. ***Overview of the Vehicle Restraint and Dock Leveler Market***

Both Rite-Hite and Kelley manufacture "vehicle restraints" and "dock levelers." "Vehicle restraints" secure trucks to loading docks to prevent accidental departure from the dock during the loading or unloading process. "Dock levelers" are devices that automatically or semi-automatically bridge the gap between a truck and a dock so that forklift trucks can safely pass over that gap during the loading or unloading process. Dock levelers, in general, have replaced the loose plates that were often used when loading and unloading was accomplished manually (Findings of Fact, Mar. 5, 1986 Decision and Order on Liability ("Findings of Fact"), ¶ 9). By the time that Rite-Hite began to develop vehicle restraints, it had already established itself as a manufacturer of dock levelers.

Rite-Hite and Kelley are both pioneers in the dock leveler business and for many years have been the primary competitors in that business. They both have strong distribution systems, and the two firms dominate their industry. During the period of infringement, they accounted for more than 80% of all dock leveler and 95% of all vehicle restraint sales (Nov. 7, 1990 Trial Testimony of Rite-Hite President Mike White ("Mike White")).

For years, manufacturers and users of dock levelers as well as regulatory agencies recognized the dangers inherent in the accidental separation of trucks from loading docks during the loading or unloading process. Such separation creates a gap between the truck and dock through which a forklift operator and his forklift

can fall to the driveway below (Findings of Fact, ¶ 10). Such accidents can be catastrophic (*Id.*).

The American National Standards Institute (ANSI) Safety Committee MH14 addressed this danger during its October 1975 meeting (*Id.* ¶ 14). Specifically, ANSI considered whether "safety legs," Rite-Hite-manufactured devices which limited the extent to which the dockboard could extend, should be sold as required equipment along with levelers (*Id.* ¶¶ 14, 16). At that meeting, Arthur K. White, father of Mike White and the founder of Rite-Hite, proposed to eliminate the problem of accidental truck separation by developing a vehicle restraint device that would physically hook trucks to loading docks (*Id.* ¶ 16). Such devices did not yet exist at the time, and the only existing solutions to the inadvertent truck separation problem, wheel chocks and "communication" systems, were generally ineffective (*Id.* ¶ 16).

C. *Rite-Hite's Development of Vehicle Restraints and the Significance of the '847 Patent*

Rite-Hite spent nearly five years developing its first commercially successful vehicle restraint (*Id.* ¶ 17). Rite-Hite's vehicle restraint development program was arduous and involved many discarded designs (*Id.* ¶ 18). Rite-Hite developed its first vehicle restraint, which was never marketed, by 1977 (*Id.*). By continually researching new restraint designs, Rite-Hite gradually developed restraints that were less expensive, less obtrusive, and less vulnerable to being damaged by vehicles than their predecessors (*Id.* ¶ 19). By the spring of 1978, Rite-Hite developed a vehicle restraint which was mounted on the vertical face of a dock and which utilized a pivoted hook design (*Id.* ¶ 20). Rite-Hite eventually developed a pivoted hook design that functioned by rotating upward to engage the truck's Interstate Commerce Commission bar ("ICC bar") and that was operable either manually or automatically (*Id.*).

In April 1980, Rite-Hite introduced its first restraint, the Automatic Dok-Lok model 100 ("ADL-100") (*Id.* ¶ 37). This device functioned automatically, contained an adjustable trapezoidal carriage to accommodate ICC bars of different heights, and used a rotating or "pivoted hook." The ADL-100 was covered by Rite-Hite patents other than the '847 patent in suit (*Id.* ¶¶ 17-23).

Following the introduction of ADL-100, Rite-Hite continued to develop restraints (*Id.* ¶ 24). At the time it sought primarily to develop a simplified and less expensive restraint that was capable of manual operation (*Id.*). In the spring of 1981, one year after the introduction of the ADL-100, Rite-Hite employees Steven Hipp and Norbert Hahn developed the first of Rite-Hite's Manual Dok-Lok ("MDL") vehicle restraints, which incorporated the releasable locking device covered by the '847 patent (*Id.* ¶ 25). The inventors filed their patent application in the U.S. Patent and Trademark Office on May 4, 1981, and the '847 patent was issued on February 15, 1983.

During the late summer of 1981, Rite-Hite introduced the MDL-55 unit ("MDL-55") (*Id.* ¶ 38). This model featured the vertically moving, releasable hook technology covered by the '847 latent in suit (*Id.* ¶¶ 24-25). This court found following the liability trial that the vertically moving hook assembly covered by the '847 patent was "a new departure from and an improvement over previous 'pivoted hook' designs," the design used in the Rite-Hite ADL-100 (*Id.* ¶ 30). This court found the '847 technology to be superior to the "pivoted hook" design in several ways: (1) the '847 technology resulted in a better range of engagement and larger "capture area," (2) it required a smaller sweep or clearance, and (3) it avoided the tendency of the pivoted hook to rotate away from the ICC bar (*Id.*).

This court therefore concluded following the trial on liability that: (1) the '847 patent represented a "significant advance in the art" whose commercial success was "manifest," (Conclusions of Law, ¶¶ 113-14), (2) the '847 patent was a significant cause for the

commercial success of both the Rite-Hite MDL-55 and the Kelley Truk Stop (Findings of Fact, ¶¶ 34, 67), and (3) the claims and value of the '847 patent were not limited to the simplicity of its construction or the possibility of manual operation (*Id.* ¶¶ 30, 80).

The list price of the MDL-55 ranged from only one-half to one-third the list prices of the ADL-100 and the Kelley Truk Stop restraints during the period of infringement, primarily because it did not contain a motor (*See* Plaintiffs' Damages Trial Exh. ("PDTX")-33; Testimony of Mike White). Nonetheless, the MDL-55 offered some advantages over the ADL-100 in that it used the advanced releasable, travelling hook technology provided by the '847 patent.

D. ***Rite-Hite's Marketing of Vehicle Restraints***

The vehicle restraint has proved to be a very profitable product for Rite-Hite and for the Rite-Hite ISO's (Testimony of Mike White & Michael Belcher, co-owner of ISO Todd Equipment Corp.; *see* PDTX-21). Rite-Hite consistently earned its highest profit margins on its restraint devices (Testimony of Mike White).

Rite-Hite initially developed and marketed restraints as safety devices which would pay for themselves by preventing costly accidents (*Id.*). Rite-Hite later attempted to sell restraints as devices that would reduce loading-dock costs by eliminating the time-consuming wheel-chocking process (*Id.*).

In addition to using these new sales tactics, however, Rite-Hite also found that it needed to employ a new basic marketing strategy in order to market restraints effectively (*Id.*). Prior to the introduction of the vehicle restraint, Rite-Hite salespersons typically waited for new construction projects to develop and then made bids on the projects (*Id.*). With the vehicle restraint in its product line, however, Rite-Hite attempted to introduce the vehicle restraint concept to potential customers by arranging meetings, sometimes over a several-month period, with the customer's high-level manu-

facturing, traffic, and safety personnel (*Id.*). Rite-Hite generally did not make immediate sales with this "deep-selling" strategy, but it sometimes won restraint sales at a later date when the customer finally decided to retrofit existing docks with restraints. (*Id.*).

Rite-Hite claims that this long-term marketing approach made it particularly vulnerable to Kelley's infringement (*Id.*). Rite-Hite showed that its representatives in many cases made the initial presentation of the restraint concept to the customer, only to have a Kelley representative snatch away the sale in the end by offering a lower-priced Truk Stop unit (*Id.*). Rite-Hite was able to retain a large market share despite the infringing competition, but as discussed below, plaintiffs did lose numerous sales on account of Kelley's infringing competition. The plaintiffs failed to demonstrate convincingly, however, that it was Kelley's infringing competition alone that caused them to make the price cuts that they attribute to Kelley's infringing competition.

E. *Kelley's Development and Marketing of the Infringing Truk Stop Restraint*

When Kelley first confronted Rite-Hite's ADL-100 restraint, it downplayed the significance of the restraint concept by focusing its efforts on developing communication-type devices and other alternative solutions to loading dock hazards. (*Id.* ¶ 37). By 1981, however, Kelley representatives recognized that Rite-Hite restraints were achieving marketplace acceptance and demanded that Kelley develop a vehicle restraint of its own (*Id.* ¶ 39). These representatives were concerned not only that Kelley was missing the boat in the restraint market, but also that Kelley was losing dock leveler sales to customers who sought restraint-leveler packages. (*Id.*).

At trial, Kelly denied that its decision to develop its infringing Truk Stop unit was motivated by a fear of losing leveler sales. Numerous Kelley documents written around the time that Kelley developed the Truk Stop belie Kelley's claim. On November 13,

1981, John Hogseth, Kelley's Vice President of Marketing ("Hogseth"), wrote a memorandum ("Hogseth memorandum") to Joseph Driear ("Driear"), Kelley's Director of Engineering, requesting Driear to develop a vehicle restraint that would be competitive with Rite-Hite's restraints. (*Id.* ¶ 41; PDTX-32).

The Hogseth memorandum underscores that Kelley developed the Truck Stop, at least in part to avoid losing associated leveler sales. The memorandum states:

> Although we haven't completed a full analysis of our past and projected losses in dockleveler sales due to our inability to meet increasing owner specifications for this [restraint] product, please begin an engineering feasibility study to allow introduction of such a product by June 1, 1982, if possible.

(PDTX-32).

Driear responded that he would comply with Hogseth's request, but indicated that he needed a picture and samples of Rite-Hite's new MDL-55 Dok-Lok restraint (Findings of Fact ¶ 42). On the next day, Driear reviewed copies of various Rite-Hite patents, including the patent claiming the ADL-100 restraint (*Id.*).

On December 30, 1981, Kelly purchased and installed at its Tuf-Seal subsidiary one of the first MDL-55 units sold (*Id.* ¶ 48). Kelley engineers immediately began to inspect, disassemble, measure, operate, and photograph it (*Id.*). By this time, Kelley had obtained all information available about the construction and operation of the MDL-55. (*Id.* ¶¶ 48-49). Although Kelley had examined the ADL-100 in developing its Truk Stop unit (Findings of Fact, ¶ 34), Kelley advanced its research efforts most significantly by examining the MDL-55:

> The evidence at trial, both through the testimony of Kelley's personnel and its documentation, shows that Kelley had given a great deal of thought to the question of a product that would compete with Rite-Hite's vehicle restraint, and

> that Kelley had made little progress in its own efforts to come up with a competing device until after its engineers had the benefit of the MDL-55 Dok-Lok brochures and inspected, tested, and dismantled an actual MDL-55.

(*Id.* ¶ 55). Although the MDL-55 devices were marked "patent pending" at that time, Kelley did not attempt to determine what patents might issue on the MDL-55 (*Id.* ¶ 42).

By January 12, 1982, Kelley completed the first of its sketches of Kelley's Truk Stop device, which embodied all of the features claimed in '847 patent claims 1, 2, 3, 8, 12, and 13, including the vertically travelling hook technology covered by the '847 patent. These first sketches show the infringing product that Kelley eventually marketed as the Truk Stop (*Id.* ¶ 51). This court concluded at the liability trial that the Kelley Truk Stop infringed the '847 patent embodied in the MDL-55 device (*Id.* ¶ 73).

Although the Kelley Truk Stop infringed the '847 patent embodied in the Rite-Hite MDL-55 unit, the record makes clear that Kelley intended the Truk Stop to compete with Rite-Hite's ADL-100, which was introduced earlier than the MDL-55 and which proved to be more commercially successful than the MDL-55 (PDTX-32; Kelley's Proposed Findings of Fact ¶ 16). The Kelley Truk Stop employed an electric motor and functioned automatically, like the Rite-Hite ADL-100 unit, and unlike the manually-functioning MDL-55 (*Id.* ¶ 9). The list price of the Kelley Truk Stop was also closer to that of the ADL-100 than the MDL-55 throughout the period of infringement (PDTX-33).

Thus, Kelley developed its Truk Stop restraint both in order to capture part of the newly-developed restraint market and to avoid losing leveler sales. Moreover, the features and pricing of the Kelley Truk Stop indicate that the unit was intended to compete primarily with the ADL-100 rather than the MDL-55. Rite-Hite's lost sales figures confirm that the Kelley Truk Stop did in fact

cause Rite-Hite to lose significantly more sales of the ADL-100 than the MDL-55 (PDTX-3).

F. *Background of the Rite-Hite ISO's and the Exclusivity of their Restraint Licenses*

For the reasons below, this court finds that both the Rite-Hite owned sales organizations and the ISO's are exclusive licensees of the '847 patent.

1. *Background of the ISO's*

Rite-Hite distributed all its products during the period of infringement through Rite-Hite sales organizations (Testimony of Mike White). Each organization sold a variety of products manufactured by Rite-Hite and other firms at retail prices. These additional products included "dock seals" and "dock shelters," which products were not manufactured by Rite-Hite but were frequently sold in contractual "packages" along with Rite-Hite vehicle restraints and levelers (*Id.*). The sales organizations had substantial and permanent places of business and offered installation, repair, and maintenance for the products they sold (*Id.*).

Rite-Hite owned and operated several Rite-Hite sales organizations throughout the period of infringement (*Id.*). During that time, all of the assets of those Rite-Hite owned sales organizations which had been established as separate wholly-owned subsidiaries or were otherwise acquired were transferred to Rite-Hite Corporation (*Id.*). Thereafter, all Rite-Hite owned sales organizations operated as a division of the Rite-Hite Corporation under the name "Arbon Equipment Corporation." The Rite-Hite owned sales organizations accounted for approximately 30 percent of the retail dollar sales of Rite-Hite products, and the ISO's accounted for the remaining 70 percent during the period of infringement (*Id.*).[3]

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[3] Rite-Hite owned the following sales organizations during the period of infringement, which it operated as retail divisions under the name of the Arbon Equip.

Only the ISO's are plaintiffs along with Rite-Hite in this action. Rite-Hite itself is suing for its lost profits at the wholesale level and for the lost retail profits of Rite-Hite owned sales organizations. The ISO's are suing only for their lost retail profits.

Rite-Hite assigned each sales organization an exclusive territory in order to prevent Rite-Hite sales representatives from competing with one another (Testimony of Mike White). Where sales efforts were made by more than one Rite-Hite sales organization in more than one exclusive territory, the profits on the resulting sale were shared according to Rite-Hite's "split commission" rules (*Id.*). These rules applied to both the independent and to the Rite-Hite owned sales organizations (*Id.*). This court finds that these split commission rules are not inconsistent with the finding that the ISO's enjoyed exclusive territorial rights with respect to vehicle restraint products.

Rite-Hite gave the ISO's the option of either having Rite-Hite invoice the customers or paying Rite-Hite for the products and invoicing the customers themselves. If the ISO's elected to invoice the customers themselves, they received a slightly more favorable price from Rite-Hite (*Id.*). Rite-Hite invoiced slightly more than half of the sales of the Rite-Hite ISO's during the period of infringement. Rite-Hite also published Rite-Hite's prices and distributed them to the organizations, after consulting with its "dealer representative counsel," an organization representing the ISO's (*Id.*). Mike White testified that Rite-Hite expected the ISO's to abide by the prices published by Rite-Hite (*Id.*) ISO's which engaged in unauthorized price cutting were occasionally penalized twenty percent of their commissions on the unauthorized sales (*Id.*).

Corp. and the names of: Acme Fox, California Dock Specialists, Inc., Equipment Systems, Inc., Government Contracts (a division of Rite-Hite), Great Northern Industrial Products, King Industries, Inc., Mid Atlantic Dock Specialists, Inc., Penn Dock Specialists, and Stordox.

2. *The Exclusivity of ISO Vehicle Restraint Licenses*

Rite-Hite assigned to each ISO a virtually exclusive right to sell Rite-Hite dock products within a specified territory (PDTX-61). Specifically, Rite-Hite promised "not to appoint any other sales representative [organization] in the [t]erritory so long as, in [Rite-Hite's] good faith judgment, [the sales] representative [organization] is doing an adequate job in that entire [t]erritory for all listed products" (Rite-Hite Sales Representative Agreement ¶ 3, in PDTX-29 and DTX-547). Rite-Hite reserved to itself, however, a nonexclusive right to make direct sales within the assigned territory to the "motor freight industry, governmental agencies and government contractors." (*Id.*) The agreement also limited the authority of the ISO's to that of soliciting contracts for sale of Rite-Hite products for final approval by the Rite-Hite "home office" (*Id.* ¶ 4).

During 1983, Rite-Hite executed with each of the ISO's a supplementary agreement to the basic sales representative agreement (PDTX-61). That supplementary agreement, the "Dok-Lok Supplement," expressly added to the ISO's product line:

> [A]ll products manufactured and sold by [Rite-Hite] under the name "Dok-Lok" and all other products manufactured or sold in the future by [Rite-Hite] . . . embodying any of the claims set forth in the Rite-Hite patents relating to "Dok-Lok" devices, *including (but not by any way of limitation) U.S. Patent No. 4,373,847.*

(Dok-Lok Supplement to Rite-Hite Sales Representative Agreement, ¶ 1, in PDTX-30 (emphasis added)). The supplement further provided that the ISO's right to sell Rite-Hite's patented restraint devices was virtually exclusive:

> Representatives shall have the *exclusive* right in the territory defined in the Sales Representative Agreement between [Rite-Hite] and Representative to sell and to solicit the sales of all of [Rite-Hite's] products embodying the Dok-Lok

device patents, except products sold to the motor freight industry.

(*Id.* ¶ 2 (emphasis added)). This agreement remained in effect throughout the period of infringement.

A group of ISO's filed for leave to intervene on December 2, 1983, and this court granted their motion by marginal order on December 30, 1983. Kelley then filed a motion to reconsider and a brief opposing the ISO's intervention. On August 31, 1984, this court denied Kelley's motion to reconsider, finding that the ISO's had a "sufficient, legally recognized interest in the rights secured by the patent to warrant participation." (Aug. 31, 1984 Decision and Order at 2, quoting *Waterman v. MacKenzie*, 138 U.S. 252, 11 S.Ct. 334, 34 L.Ed. 923 (1891)). This court concluded that the ISO's were exclusive licensees, because they possessed the right to exclude others from selling the Dok-Lok in their respective territories. This court found that Rite-Hite's reservation in the sales representative agreement of a nonexclusive right to sell to government agencies and government purchasers did not apply with respect to Dok-Lok sales, because the Dok-Lok agreement, which superseded the earlier sales representative agreement, did not include such a reservation (*Id.* at 3).[4] This court also found that Rite-Hite's reservation in the Dok-Lok supplement of the right to make direct sales of Dok-Lok restraints is limited to purchasers in the motor freight industry, which is an insignificant market for Rite-Hite products. (*Id.*) Finally, this court found that the provision permitting Rite-Hite to approve the ISO's sales did not reduce the ISO's legal interests in the '847 patent, because the court found that (1) the provision merely permits Rite-Hite to check the credit of potential customers and (2) the ISO's are permitted to purchase Dok-Loks from Rite-Hite and to resell them under their own names. (*Id.*)

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[4] This court now additionally finds that the Dok-Lok supplement also supersedes the right that Rite-Hite reserved in the original sales representative agreement to make direct sales to other unspecified purchasers.

Kelley has not specifically challenged the validity of the Dok-Lok supplement, nor has it pointed to new agreements or case law that would alter this court's earlier conclusion that the ISO's are exclusive licensees. Instead, Kelley reiterates its earlier argument that Rite-Hite's right to sell to the motor freight industry defeats a finding of license exclusivity. Second, Kelley argues that Rite-Hite's publication of price lists necessarily implies that the ISO's are mere agents and not exclusive licensees. Kelley reasons that Rite-Hite's publication of price lists would constitute resale price maintenance in violation of applicable antitrust law, unless the ISO's are considered to be agents rather than exclusive licensees.

Kelley's first argument is unpersuasive. Mike White gave uncontroverted testimony that the motor freight market was throughout the period of infringement and has remained an insignificant and relatively unprofitable market for Rite-Hite products, including vehicle restraints. He also testified that Rite-Hite retained the right to make direct sales to motor freight customers only because the ISO's had historically been unable to service that market profitably (*Id.*). This unrebutted testimony confirms this court's earlier finding that Rite-Hite's reservation of a nonexclusive right to sell to this industry does not defeat the exclusivity of the ISO's '847 license.

Nor is this court persuaded by Kelley's second argument that the ISO's must be considered as agents, given Rite-Hite's publication and occasional enforcement of its suggested price list. Whether Kelley is correct in claiming that it is a violation of the antitrust laws for a patentee-manufacturer to fix the resale prices of its sales organizations unless the organizations are the manufacturer's agents has not been litigated in this case. This court declines to recharacterize Rite-Hite's agreements with the ISO's and thereby diminish the rights of the ISO's, in order to make Rite-Hite's pricing practices appear more benign under the antitrust laws when

the antitrust implications of Rite-Hite's pricing practices are not before this court.

This court therefore reiterates and extends its August 31, 1984 conclusion that the ISO's have a "sufficient, legally recognized interest in the rights secured by the ['847] patent," by finding that, under the express terms of the Dok-Lok supplement, the ISO's are exclusive licensees of the '847 patent and all other Rite-Hite vehicle restraint patents, including the patents covering the ADL-100 unit.

G. *The Period of Infringement and Number of Infringing Units Sold*

Kelley began selling the Truk Stop in July 1982, about seven months before the '847 patent issued. The period of infringement began with the issuance of the '847 patent on February 15, 1983. This court did not enter a preliminary injunction barring Kelley from selling the Truk Stop, and Kelley continued to sell Truk Stops pending the outcome of the liability trial. Notably, Kelley also continued to sell Truk Stops after the liability trial while the appeal was pending. When the United States Court of Appeals for the Federal Circuit ("Federal Circuit") affirmed this court's finding of liability on April 30, 1987, Kelley ceased producing and selling the infringing Truk Stop.[5] The period of infringement thus extended from February 15, 1983, to April 30, 1987.

Although Kelley estimates that it sold only 3,765 infringing Truk Stop units, this court finds Rite-Hite's figure of 3,825 infringing sales to be more accurate. Kelley's estimate, set forth in a document that Kelley sent to Rite-Hite in 1987 for settlement purposes, was not authenticated by any witness and was not shown to have been based on Kelley's ordinary business records (*See*

[5] By April 30, 1987, Kelley had developed and was selling other restraint models which Rite-Hite claims also infringe Rite-Hite patents in another lawsuit, *Rite-Hite Corp. v. Kelley Co., Inc.*, Case No. 89-C-1274 (E.D. Wis. filed October 13, 1989) (stayed pending outcome of this case).

Defendant's Trial Exh. ("DTX")-586). In contrast, Rite-Hite's figure, is documented in PDTX-3 and the "individual claim volumes" supporting that exhibit. These individual backup claim volumes contain Truk Stop invoices that Kelley furnished to Rite-Hite. Kelley did not challenge the occurrence of any of the particular sales listed in Rite-Hite's backup volumes and summarized in PDTX-3. This court therefore finds that Kelley sold 3,825 infringing Truk Stop units during the period of infringement.

H. *Plaintiffs' Lost Restraint Sales*

For the purpose of determining plaintiffs' lost profits damages, this court finds that, in the absence of Kelley's infringing Truk Stop competition, the plaintiffs would have sold 3,243 additional ADL-100 vehicle restraints and 80 additional MDL-55 restraints for a total of 3,323 additional restraints (PDTX-3).

1. *Admissibility and Relevance of Plaintiffs' Evidence of Lost Restraint Sales*

Plaintiffs' summary exhibit PDTX-3 summarizes plaintiffs' lost sales claims and traces them back to specific transactions. The specific "lost sales" are more fully documented in plaintiffs backup claim files ("claim files") supporting PDTX-3. This court has considered Kelley's objections to PDTX-3 and the claim files and finds that PDTX-3 and the claim volumes are admissible and provide adequate proof of plaintiffs' claims for the reasons given below.

Each of plaintiffs' claim files contains several documents pertaining to a single transaction or series of transactions with a single customer. The files include deposition testimony from a member of a Rite-Hite sales organization regarding a sale that Rite-Hite claims to have lost on account of an infringing Kelley sale. The files also include "projection" forms summarizing the data in depositions. According to plaintiffs' expert witness, accountant Ronald Beckman, every claim file regarding transactions in which plain-

tiffs seek lost profit damages contains testimony that: (1) prior to the Kelley sale, Rite-Hite salespersons had solicited the Kelley customer for Rite-Hite vehicle restraints, and (2) vehicle restraints from other manufacturers had not been bid or had been ruled out by the customer because of perceived product problems. Some of the backup files also contain testimony to the effect that the Kelley Truk Stop purchasers were interested in Rite-Hite restraints and levelers, but that they purchased from Kelley solely on the basis of price. PDTX-143 specifically itemizes 169 cases in which plaintiffs' salespersons testified that they had initially convinced the customer to purchase a restraint before the customer ultimately purchased from Kelley.

Kelley objected to plaintiffs' backup claim files on the ground that they contain inadmissible hearsay testimony. Specifically, Kelley argued that the testimony of the salesperson-witnesses describing customer motives for purchasing the Kelley Truk Stop should be excluded as hearsay. At trial, this court overruled Kelley's hearsay objection, reasoning that the customer statements to the salespeople were admissible under the "state of mind" exception to the hearsay rule. This exception, as set forth in Fed. R. Evid. 803, provides:

> The following are not excluded by the hearsay rule, even though the declarant is available as a witness:
>
> . . .
>
> **(3) Then existing mental, emotional, or physical condition.** A statement of the declarant's then existing state of mind, emotion, sensation, or physical condition (such as intent, plan, motive, design, mental feeling, pain, and bodily health), but not including a statement of memory or belief to prove the fact remembered or believed unless it relates to the execution, revocation, identification, or terms of declarant's will.

Based upon the testimony of Michael Belcher, co-owner of ISO Todd Equipment Corp., about the timing of the customer statements, this court found at trial that the customers' statements concerning their purchasing motives were made "substantially contemporaneously" with the customers' decisions to purchase Kelley units. This court therefore ruled that the customer statements were admissible under Fed. R. Evid. 803(3).[6]

This court notes that evidence of customer motives is highly relevant to the issue of whether to award lost profits damages, because this court must determine the extent of competition that a customer perceived on a particular bid. *See, e.g., Kori Corp. v. Wilco Marsh Buggies & Draglines*, 761 F.2d 649, 653, 225 U.S.P.Q. 985 (Fed.Cir.), *cert. denied*, 474 U.S. 902, 106 S.Ct. 230, 88 L.Ed.2d 229 (1985). In *Kori*, the court upheld the district court's award of lost profits damages, based upon the district court's finding that "from *a buyer's perspective*, the only acceptable substitute for the [plaintiff's] patented ... machines were the infringing machines." 761 F.2d at 653 (emphasis added). Thus, evidence of customer purchasing motives is probative of whether purchasers of the infringing Truk Stop perceived the Truk Stop to be the only real alternative to Rite-Hite's restraints.

2. *Reliability of Plaintiffs' Evidence of Lost Restraint Sales*

In admitting the salesperson testimonial evidence regarding customer motives, however, the court noted that it would consider the substance of Kelley's various objections to this evidence, including the hearsay objection, in assessing the reliability of this evidence.

Regarding the reliability of the salesperson testimonial evidence, Kelley first argues that plaintiffs have promised the salespeople

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[6] The "projection sheets," which were authenticated by the witnesses during their depositions, are admissible as summaries under Fed. R. Evid. 1006, which provides that both underlying documents and summaries may be received into evidence. *United States v. Stephens*, 779 F.2d 232, 239 (5th Cir.1985).

whose testimony supports plaintiffs' claims part of any recovery that plaintiffs might obtain in this action. Kelley further argues that the salesperson testimony regarding whether customers would have purchased Rite-Hite products but for Kelley's infringing competition is both speculative and was elicited by leading questions. Kelley argues that plaintiffs prompted their salespersons' deposition testimony by providing the salespeople with "lost sale projection sheets" prepared by plaintiffs' attorneys. Kelley also notes that many of the claim files do not contain records of plaintiffs' bids or do contain bid documents that were prepared by someone other than the testifying salesperson. Finally, Kelley argues that the lost profit claim file was not properly audited by the plaintiffs' accounting expert. Kelley correctly pointed out at trial that the accounting expert merely checked Rite-Hite's arithmetic, but did not question the premises of plaintiffs' claim or independently verify the salesperson testimony. Such accounting analysis was not an "audit" performed according to the Attestation Standards prescribed by the American Institute of Certified Public Accountants (*See* DTX-780, p. 2844). Kelley therefore urges this court to find that the claim files do not show to a reasonable probability that Rite-Hite would have made the claimed lost sales.

This court declines Kelley's request to place little or no weight upon the evidence contained in plaintiffs' claim file, because under the facts of this case, salesperson testimony regarding customer statements is the most reliable type of evidence available. Based upon the in-court testimony of various salespersons, including that of Michael Belcher and W. Michael McKinley, this court finds that salespersons commonly rely upon what the customers tell them. Such evidence of a customer state of mind, as recounted by salespersons, is the most reliable proof of the extent of competition that a customer perceived on a particular bid, absent subpoenaing the customers themselves.

This court declines to penalize plaintiffs for failing to subpoena purchasers of the infringing product because: (1) plaintiffs might

have lost the good will of the subpoenaed parties, (2) the testimony of these parties would be of dubious competence,[7] and (3) Kelley had an equally good opportunity to depose these Kelley customers in order to refute the testimony of Rite-Hite salespeople.

Moreover, although the salesperson testimony may be "interested" testimony, Kelley has offered no evidence that specifically contradicts it. Kelley has also failed to point out which of the hundreds of claim files are missing bid sheets or even to approximate what percentage of files are missing such bid sheets. This court therefore heeds Kelley's caution that Rite-Hite's claim file has not actually been "audited" in the usual sense, but this court nonetheless accepts the plaintiffs' claim files as reasonably reliable evidence of their lost sales.

The reliability of plaintiffs' proof of lost sales is not as significant an issue as Kelley suggests, however, because plaintiffs' may prove their lost sales through the alternative market share method.[8] The plaintiffs' lost sales estimates, are consistent with the amount of lost sales predicted by the market share method, which is an appropriate alternative means of measuring lost profits damages in this case. This court recognizes the danger in relying upon testimony of potentially interested salespeople, but it finds the salesperson testimony to be accurate in the aggregate, largely because the lost sales be claim based upon this testimony is

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[7] As one commentator notes:

> The ultimate factual issue [regarding lost sales] obviously cannot be proved by direct evidence, for those who elected to do business with the infringer rarely would be willing to testify as to what they would have done if the infringing product or service had not been available from the source they chose, and it is doubtful if such testimony would be competent in any event.

3 R. White, *Patent Litigation: Procedure & Tactics* § 9.03[2] at 9-18.3.

[8] *State Industries v. Mor-Flo Industries*, 883 F.2d 1573, 1578, 12 U.S.P.Q.2D 1026 (Fed.Cir.1989), *cert. denied*, 493 U.S. 1022, 110 S.Ct. 725, 107 L.Ed.2d 744 (1990). For discussion, *see* section IV. C, *infra*.

consistent with the number of lost sales projected by market share analysis.[9]

For these reasons, the plaintiffs' lost sales claim evidence is admissible and reliable.

3. *Elements of Panduit Test for Lost Profit Damages*[10]

a. Demand for Restraints

This court finds that demand existed for vehicle restraints during the period of infringement as evidenced by the sale of a substantial number of infringing Truk-Stop units.

b. Absence of Acceptable Noninfringing Substitutes

This court finds that acceptable noninfringing substitutes were unavailable in the specific transactions in which Rite-Hite claims to have lost sales to Kelley. Plaintiffs offered specific testimony indicating that manufacturers other than Rite-Hite and Kelley either were not competing in the transactions at issue or had been ruled out by the customers. Moreover, competitors other than Kelley, Rite-Hite, and Serco (whose restraint infringed a Rite-Hite patent, as discussed below) did not enter the market until late in the period of infringement, and even then, none of these other competitors had a broad distribution network or sold a significant number of restraints (*See* PDTX-35).

Plaintiffs' claim of 3,323 lost restraint sales is corroborated by the market share analysis contained in PDTX-35, the accuracy of which was conceded at trial by Kelley CEO Robert C. Kuhns ("Robert Kuhns"). This exhibit, listing estimated sales of Rite-Hite, Kelley, and other competitors during each year of the infringement period, uses market share analysis to estimate that

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[9] See text accompanying footnote 11, *infra*.

[10] *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 197 U.S.P.Q. 726 (6th Cir.1978).

Rite-Hite lost 2,907 restraint sales.[11] This figure corroborates plaintiffs' claim of 3,323 lost sales reasonably well, particularly because the market share method yields conservative estimates of Rite-Hite's lost sales. The lost sales calculations set forth in PDTX-35 do not consider the Kelley sales in territories of those Rite-Hite ISO's who have not become parties to this lawsuit. Sales lost by those non-party ISO's are included in the claim of Rite-Hite as a manufacturer (*See* PDTX-3), however, causing the market share analysis in PDTX-35 to underestimate Kelley's infringing market share and Rite-Hite's lost sales. The analysis in PDTX-35 further underestimates plaintiffs' lost restraint sales because it erroneously failed to include Serco's infringing sales[12] along with Rite-Hite's restraint sales in calculating Rite-Hite's share of the noninfringing market.[13]

Wheel chocks were not acceptable noninfringing substitutes for the customers who actually chose to purchase the Kelley Truk Stop unit. It is true that both wheel chocks and restraints satisfied applicable OSHA regulations (DTX-729), and that the overwhelming majority of loading dock customers still use chocks.

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[11] Plaintiffs projected their lost sales under the market share method by multiplying Rite-Hite's percentage share of the non-infringing market by the total number of Truk Stop units sold. In mathematical terms, market share analysis projects Rite-Hite's lost sales using the following formula: [Rite-Hite sales in units/ (industry total restraint sales in units − infringing Kelley sales in units)] × infringing Kelley sales in units.

[12] Serco, Inc. was Rite-Hite's principal competitor other than Kelley during the period of infringement. Rite-Hite sued Serco in 1984 for infringement of Rite-Hite patents not at issue in this lawsuit. The action was settled in 1987 with a consent decree that acknowledged the validity of the Rite-Hite patents asserted, acknowledged Serco's infringement of those patents, called for a cash payment to Rite-Hite of $75,000, and granted a royalty-free license to continue selling the Serco AVR-100, -200, and -300 models. Prior to the agreement, Serco advised Rite-Hite that it would be introducing new models. Since the settlement, Serco has discontinued selling the AVR-100, -200, and -300 models and has introduced two new models of restraints.

[13] For the proper method of accounting for alternative infringing sales in calculating the patentee's market share, see *State Industries*, 883 F.2d at 1577.

Nonetheless, restraints were marketed as cost-saving devices, and many of the customers who actually purchased restraints were undoubtedly persuaded by this marketing approach. By spending several extra thousand dollars to purchase the Kelley Truk Stop restraint rather than simple wheel chocks, the Truk Stop customers demonstrated that chocks did not meet their needs. Accordingly, when a customer specified a need for a "vehicle restraint or equivalent" in a bid, a wheel chock was not considered to be an acceptable substitute (Testimony of Michael McKinley).

Kelley's arguments that many of the Truk Stop purchasers would not have purchased the Rite-Hite ADL-100 is unpersuasive. Kelley did not show that its customers were so loyal, that Kelley's service was so superior, or that the Truk Stop was so much less expensive or better than the Rite-Hite restraints, that the Truk Stop purchasers would not have purchased a Rite-Hite restraint. Such arguments are not patently unreasonable, but they are unsupported by the facts. Kelley offered no customer testimony showing that Truk Stop purchasers would have categorically refused to purchase Rite-Hite products or that the Truk Stop purchasers perceived the Truk Stop to be significantly better than the ADL-100. Kelley also failed to proffer any evidence concerning (1) the average actual price difference between the Kelley Truk Stop and ADL-100 or (2) the price elasticity of demand for restraints held by the Truk Stop purchasers. According to PDTX-33, the list price of the ADL-100, which ranged from $2,500 to $3,000 during the period of infringement, never exceeded the list price of the Truk Stop by more than $300. On the average, the list price of the ADL-100 was only $200 higher than that of the Kelley Truk Stop during the period of infringement (PDTX-33). Although Kelley claims to have offered significant, but unspecified discounts, it failed to show that Truk Stop purchasers would not have purchased the ADL-100 because of its slightly higher price. This court finds that most customers who are willing to purchase a $2000-$3000 Kelley Truk Stop rather than inexpensive wheel

chocks would also be willing to purchase a slightly more expensive ADL-100 restraint.

This court also rejects Kelley's argument that Rite-Hite's lost sales figure should be reduced to account for the increase in total market-wide restraint sales that Kelley attributes to its entry into the market. Kelley suggests that its mere presence in the market increased customer acceptance of the restraint concept and thereby indirectly increased market-wide restraint sales, including Rite-Hite's sales. Kelley's argument is resourceful but without factual support.

For the foregoing reasons, this court concludes that Rite-Hite would have made its claimed lost sales but for Kelley's infringing competition.

c. Rite-Hite's Manufacturing and Marketing Capabilities

This court finds that the plaintiffs had the manufacturing and marketing capabilities to exploit the full demand for vehicle restraints during the period of infringement (Testimony of Mike White). Even in 1985, the year in which Kelley sold its greatest number of Truk Stop units, Rite-Hite could have manufactured sufficient restraints to satisfy the demand of the Truk Stop customers by increasing its production by less than twenty-five percent (*Id.*).

d. Plaintiffs' Proof of Lost Profits

See section II.J., *infra*.

4. *Number of Lost Sales Due to Infringement*

For the above reasons, this court finds that, in the absence of Kelley's infringing Truk Stop competition, the plaintiffs would have sold 3,243 additional ADL-100 units, which do not embody the '847 patent in suit, and 80 additional MDL-55 units, which do embody the '847 patent in suit, for a total of 3,323 additional

restraints (PDTX-3). That the plaintiffs claim to have lost far more sales of ADL-100 model vehicle restraints than MDL restraints is reasonable, given that Kelley's Truk Stop restraint was designed and marketed to compete against Rite-Hite's ADL model (*See* PDTX-32 & -33).

I. ***Plaintiffs' Lost Sales of Dock Levelers***

This court finds that in the absence of Kelley's infringing Truk Stop competition, plaintiffs would have sold an additional 1,692 dock levelers in restraint-leveler package sales during the period of infringement. Without the Truk Stop in its product line, Kelley would not have made these leveler sales for the reasons below.

Although both parties sold most of their levelers without restraints (*see, e.g.,* PDTX-3 at 1), the restraint was most useful when used in combination with a leveler (Testimony of Mike White). Following the development of the restraint, loading industry customers frequently solicited package bids for the simultaneous installation of vehicle restraints and dock levelers, especially for new dock installations (*Id.*). Such package bids made it easier for customers to contract with suppliers and to coordinate construction schedules (*Id.*). Restraints installed at new installations were in fact normally installed with levelers (Testimony of Mike White). Customers purchasing restraint-leveler packages almost invariably purchased both items from the same manufacturer (*Id.*). Kelley's November 13, 1981 internal Hogseth memorandum underscores Kelley's early awareness of the linkage between restraint and leveler sales (PDTX-32). Both Rite-Hite and Kelley encouraged this linkage during the period of infringement by offering "combination discounts" on restraint-leveler packages (Testimony of Mike White). Some Kelley representatives further reinforced this linkage by informing customers that Kelley would void warranties for levelers to which a Rite-Hite restraint had been attached (Testimony of Michael Sherrard).

Not surprisingly, of the 3,825 infringing Kelley restraints sold during the period of infringement, 1,692 were sold in restraint-leveler packages (PDTX-3 at 1). This court finds that Rite-Hite could normally have anticipated selling restraint-leveler packages to customers who bought Kelley restraint-leveler packages in transactions in which a Rite-Hite package was bid.

J. *Plaintiffs' Damages*

Kelley argues that the plaintiffs' damages claims are excessive in that the plaintiffs failed to deduct a sufficient amount of their avoided variable costs from their damages claims. In their joint damage exhibits, the thirty-four plaintiff ISO's estimate that they would have incurred additional incremental expenses amounting to only one percent of the net sales revenue that they would have earned had they made Kelley's infringing sales. Rite-Hite estimates that its own incremental manufacturing costs would only have amounted to .17 percent of the additional net sales revenue that it would have earned had it made the sales it lost to Kelley. Kelley's criticism, based largely upon the testimony of its expert witness Dr. James Adler ("Dr. Adler"), points out the need to deduct from plaintiffs' claims the percentage sales commissions that both the Rite-Hite owned sales organizations and the ISO's avoided having to pay to their salespeople as a result of Kelley's infringement. On this point, the court is persuaded that Dr. Adler is correct.

Rite-Hite has proved its lost profits damages as a manufacturer to a reasonable probability, but Rite-Hite as a retailer and the ISO's have failed to prove their retail damages to a reasonable probability. As discussed below, Rite-Hite as a manufacturer is entitled to lost profits damages, but Rite-Hite as a retailer and the ISO's are entitled only to reasonable royalty damages.

1. *Reliability of Rite-Hite's Claim for Lost Profits at the Wholesale Level*

Dr. Adler criticized plaintiffs' lost profit claim on various grounds. First, Dr. Adler suggested that Rite-Hite's gross profits were not credible, because Rite-Hite's historical gross profit margins were significantly lower than the gross profit margins used to calculate Rite-Hite's damages claim (*See* DTX-572).

Rite-Hite effectively rebutted Dr. Adler's criticism through the testimony of Mark Kirkish ("Kirkish"), the controller of Rite-Hite. Kirkish attributed the discrepancy in gross profit margins to three factors: (1) Rite-Hite had higher profit margins on restraints than on other classes of products, (2) Rite-Hite did not claim damages for lost sales of "options," which generally sold at gross profit margins lower than those for restraints alone, and (3) Rite-Hite was forced to offer price discounts to the ISO's in order to meet Kelley's infringing competition. This court is unpersuaded by Adler's criticism of the gross profit margins included in Rite-Hite's claim, because Dr. Adler failed to rebut specifically any of Kirkish's explanations.

Dr. Adler next compared Rite-Hite's actual operating profits and expenses during the period of infringement to the operating profit and expense estimates in Rite-Hite's claim (DTX-574 & -682). Dr. Adler noted that Rite-Hite earned an eight percent profit on net sales dollars during the period of infringement, but that Rite-Hite assumes in its damages claim that it would have earned a fifty-one percent profit on the net sales dollars that it would have made but for the infringement (*Id.*). Without identifying any specific errors in Rite-Hite's operating profits calculations, Dr. Adler suggested that the discrepancy between the historical and the claimed incremental operating expenses undermined the credibility of Rite-Hite's lost profit claim.

Rite-Hite's expert, accountant Donald Beckman ("Beckman"), an accountant with Coopers & Lybrand, effectively countered Dr.

Adler's criticism by offering a reasonable explanation for the differences between Rite-Hite's historical operating expenses and the incremental operating expenses included in Rite-Hite's claim for lost wholesale profits (PDTX-140). Beckman attributed the discrepancies in Rite-Hite's historical and claimed operating expenses to the three factors: (1) one-time expense increases that Rite-Hite incurred in 1986; (2) increases in other expenses that had no relationship to sales, e.g., rent and executive salaries paid to stockholder families; and (3) increases in "stepped fixtures" sales and marketing expenditures that were unrelated to sales. Beckman further suggested that the amount of incremental operating expenses deducted from Rite-Hite's lost profit claim was reasonable because: (1) Rite-Hite had included $95,000 of fixed expenses in its calculation of operating expenses and (2) Rite-Hite's incremental expenses would have been $84,000 less than its actual expenses on account of economics of scale that Rite-Hite would have enjoyed if it had made Kelley's sales. Dr. Adler did not respond specifically to any of Beckman's explanations.

Rite-Hite's other expert, Dr. Rita Cheng, of the University of Wisconsin at Milwaukee School of Business, also criticized Dr. Adler's analysis. First, she noted that Dr. Adler's analysis did not take into account the additional sales expenses that Rite-Hite spent in order to meet Kelley's infringing competition. Second, she reiterated Beckman's analysis that some of Rite-Hite's operating expenses were unrelated to sales volume, including, for example, increased expenses incurred by Rite-Hite in connection with its retail operations in 1986 and various "stepped fixed" marketing costs. Third, Dr. Cheng criticized the basic assumption of Dr. Adler's regression analysis that operating costs were completely dependent upon sales. Dr. Cheng noted that sales could equally plausibly be considered to be partially dependent upon sales expenses, and that operating costs should therefore not necessarily be considered a dependent variable and sales should not necessarily be considered an independent variable. Dr. Cheng also

noted that the reversal of the dependent and independent variables would cause a regression analysis to yield erroneous statistical results. Dr. Cheng's testimony was impressive, credible, and persuasive, and greatly assisted this court in understanding the parties' use of statistical evidence.

Although Dr. Adler's analysis initially raised questions about the credibility of Rite-Hite's claim for lost profits at the wholesale level, this court finds that Rite-Hite's expert witnesses satisfactorily explained the apparent discrepancies uncovered by Dr. Adler's analysis. As Dr. Adler cautioned, his econometric models could not in themselves project what Rite-Hite's true operating expenses would have been. Further, Dr. Adler did not perform any threshold study to establish the credibility of his assumption that operating costs were entirely dependent upon sales. Therefore, it is almost impossible, based upon Rite-Hite's historical operating cost figures, for this court to determine whether Rite-Hite's claim significantly understates Rite-Hite's incremental operating costs.

Finally, doubts regarding the precision of the damages are resolved against the infringer, *see Kaufman Co. v. Lantech, Inc.*, 926 F.2d 1136, 1141, 17 U.S.P.Q.2D 1828 (Fed.Cir.1991). Accordingly, Rite-Hite as a manufacturer has met its burden of establishing to a reasonable probability its lost profits at the wholesale level.

2. *Reliability of the Claims of Rite-Hite as a retailer and the ISO's for Lost Profits at the Retail Level*

This court finds that the sales representatives have failed to prove their lost profits damages to a reasonable probability, because they have failed to deduct avoided percentage sales commissions from their claims.

Dr. Adler questioned the accuracy of the lost profit claims of the ISO's because their claimed operating profits significantly exceeded their historical operating profits. Dr. Adler's analysis

compared the historical operating profits and expenses of five of the largest ISO's to the operating profit and expense figures used in the joint damages exhibits of all the ISO's (DTX-576). The five ISO's analyzed by Dr. Adler had an average historical operating profit of approximately five cents for every commission dollar of revenue during the period of infringement, yet request approximately ninety-nine cents in operating profit for every dollar of lost revenue.

The plaintiffs contend that claim files of each sales representative organization demonstrate that (1) the sales organizations would have incurred only minimal incremental expenses on additional sales, and (2) these expenses would have been offset by lost installation income, for which no damages are sought here. Plaintiffs also refer to testimony of Kelley representatives William McAnulty, Gerald Saks, and Michael McKinley, who admitted that many post-sale expenses, *e.g.*, site inspection and site preparation, completing documents, and providing usage instructions to customers, were normally covered by separately-billed installation charges. The plaintiffs therefore claim that the deduction of one percent of commission income from their claims adequately covers any additional expenses that the representatives would have incurred if they had made the infringing sales.

Although the lost profit claims of the ISO's and Rite-Hite owned sales organizations need not be reduced to cover installation costs for which plaintiffs normally received separate compensation, these claims must be reduced to cover noninstallation-related costs that the sales organizations avoided by losing sales to Kelley. The most significant of these avoided costs are the percentage sales commissions that the sales organizations' avoided having to pay to their salespeople. This court cannot assume that profits on installation activities would have offset the sales organizations avoided incremental costs, because the sales organizations introduced no evidence on their *net* profits on installation activities. In evaluating the reasonability of the sales representatives' damages claims, this

court analyzes the operating costs of ISO, W.E. Carlson Corp. ("W.E. Carlson").

William Carlson ("Carlson"), who jointly owns ISO W.E. Carlson with his wife, offered three explanations for the apparent discrepancy between the sales representatives' historical and claimed operating costs, based upon his firm's experience (PDTX-135). First, Carlson noted that W.E. Carlson's historical operating costs included the "sunk" costs that W.E. Carlson incurred in marketing to customers who eventually bought from Kelley. Carlson suggested that these "sunk" costs were directly caused by Kelley's infringement and therefore should not be deducted from the sales organizations' damages claims. Second, Carlson noted that W.E. Carlson's historical operating "expenses" included costs that increased for reasons apart from increased sales, such as annual increases in salaries that the firm paid to Carlson and his wife as co-owners of the business. Third, Carlson pointed out that W.E. Carlson's claimed operating costs were lower than its historical operating costs because the firm did not deduct from its claimed operating costs the percentage sales commissions ("sales commissions") that it and the other sales organizations normally paid to salespeople for making sales. Carlson agreed that these commission expenses varied directly with sales, but he suggested that these expenses are not "avoided" operating costs, because W.E. Carlson and the other independent and Rite-Hite owned sales organizations are "legally obligated" to pay a portion of any damages recovered in this case as "lost commissions" to their salespeople.

These explanations do not satisfactorily explain the discrepancy between the sales representatives' historical and claimed operating costs.

The "sunk" cost phenomenon would explain some undetermined portion of this discrepancy. In addition, "step fixed" costs, such as salaries, which increased independently of sales volume throughout the period of infringement, would explain part of this

discrepancy. For example, roughly $168,000, or twenty-five (25) percent, of the $660,000 increase in W.E. Carlson's selling and administrative expenses during the period of infringement was in fact attributable to salary increases (excluding sales commissions),[14] which increases were unrelated to changes in W.E. Carlson's sales volume (Testimony of William Carlson).[15] Being unrelated to sales volume, such "step fixed" costs would also not properly be deducted from plaintiffs' claims.

Nonetheless, plaintiffs have failed to prove their lost retail profits, because they have failed to deduct sales commission expenses from their claimed operating profits. Such commission expenses are textbook examples of costs which vary directly with sales, and which must therefore must be considered as operating expenses in determining operating profits. Sales commissions were historically significant operating expenses for W.E. Carlson,[16] and

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[14] W.E. Carlson's total salary expenses, excluding sales commission expenses, increased each year during the period of infringement, from $310,146 in 1983 to approximately $478,175 in 1987 (PDTX-135 at 2). During this period, W.E. Carlson's total selling and administrative expenses increased each year from a low of $1,003,096 in 1983 to a high of $1,664,081 in 1986, an overall $660,000 increase across this time period (*Id.*). Thus, roughly $168,000, or 25% of the $660,000 increase in W.E. Carlson's operating expenses was in fact attributable to salary increases, which according to Mr. Carlson's testimony were unrelated to sales.

During this period, W.E. Carlson's gross profits on product sales increased each year during the period of infringement, from $725,000 in 1983 to $1,152,057 in 1987, a total increase of approximately $427,000 (*Id.* at 6).

[15] Kelley has not argued that the plaintiff sales organizations would not have been able to make the incremental sales at issue without hiring more employees and thereby paying greater salaries. Such an argument would be untenable in any case, because the Rite-Hite actually did make bids in the transactions for which plaintiffs claim lost sales.

[16] This court's review of W.E. Carlson's operating expenses confirms that sales commissions (1) were a large component of that firm's operating expenses and (2) explain a significant portion of the discrepancy between W.E. Carlson's historical and claimed operating costs.

In 1983, W.E. Carlson's percentage commission expenses totaled $262,235 out of the firm's total annual selling and administrative expenses of $1,003,096

W.E. Carlson and the other sales organizations avoided having to pay these expenses by losing sales to Kelley. The plaintiffs have also failed to demonstrate that they are legally obligated to pay part of their recovery in this case as sales commissions to their salespeople. Accordingly, the independent and Rite-Hite owned sales organizations must deduct avoided sales commission expenses from their lost profits claims.

Although the sales organizations' claimed costs should be somewhat lower than their historical operating costs because of the existence of sunk and step-fixed costs, this court cannot estimate the sales organizations' actual operating costs based upon the sales organizations' submissions. The sales organizations have failed to provide this court with any basis for determining the sales commission costs that each organization avoided as a result of Kelley's infringing sales. By not deducting such a significant avoided cost item from their calculation of lost retail profits, the sales organizations have failed to prove their lost retail profits claim to a reasonable probability. Their recovery of lost retail profits is therefore limited to royalty damages amounting to one-third of their claimed lost retail profits.[17]

(PDTX-135 at 1). By 1988, W.E. Carlson's sales commission expenses had risen to $545,078 out of the firms total annual selling and administrative expenses of $1,664,081 (*Id.*). Thus, approximately $283,000, or 43%, of the $660,000 increase in W.E. Carlson's selling and administrative expenses across the period of infringement was attributable to increases in sales commission payments.

W.E. Carlson's gross profits on product sales, which are calculated before selling and administrative costs are deducted, increased of approximately $427,000 across this period (*Id.* at 6). Hence, during the period of infringement, W.E. Carlson's commission expenses increased significantly as gross profits increased — commission expenses increased by $283,000 while gross profits increased by $427,000 during this period.

[17] Although any doubts regarding the precision of the damage amount must normally be resolved against the infringer, *see Kaufman Co. v. Lantech, Inc.*, 926 F.2d at 1141, 17 U.S.P.Q.2d 1828, this rule does not apply where the doubts regarding damages arise out of the patentee's failure to introduce certain evidence that would normally be only within the patentee's control. Here, only the sales organizations had ready access to records of their commission

3 *Calculation of Lost Profits*

This court rejects the lost retail profits calculations of the independent and Rite-Hite owned sales organizations, because the plaintiffs failed to deduct avoided sales commissions from their claims. However, this court accepts Rite-Hite's calculation of its lost profits at the wholesale level, as those calculations appear in PDTX-4 and the supporting backup volumes.[18] This court finds that Rite-Hite as a manufacturer incurred the following amounts of lost profits at the wholesale level, excluding interest due to Kelley's infringement of the '847 patent: $3,811,499 lost profits on lost sales of vehicle restraints and $1,233,639 lost profits on lost sales of levelers (PDTX-4 at 36).

K. *Reasonable Royalty*

This court finds that Rite-Hite as a manufacturer is entitled to an award of reasonable royalties on 502 infringing restraint or restraint-leveler sales in which plaintiffs have not proved that they contacted the Kelley customer prior to the infringing Kelley sale (*Id.* at 38). In addition, the ISO's and Rite-Hite as a retailer are entitled to reasonable distribution royalties on all 3,825 infringing restraint and restraint-leveler sales that Kelley made.

On February 15, 1983, the date on which the law presumes the parties to have engaged in a hypothetical royalty negotiation, the '847 patent was a "pioneer" patent whose commercial success was manifest, as reflected in this court's decision on liability (Conclusions of Law, ¶ 114). Kelley's arguments that the '847 patent was valueless without the trapezoidal carriage feature found in the Rite-Hite MDL-55 and that several alternative noninfringing technologies existed during the period infringement are belied by

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payment practices. The sales organizations have failed to satisfy their burden of providing a reasonable estimate of their lost profits, and are therefore entitled only to reasonable royalty damages. *See Panduit*, 575 F.2d at 1156.

[18] PDTX-4 is a recalculation of PDTX-1, incorporating errata sheets PDTX-2B and PDTX-2C.

two facts. First, the commercial success of the Kelley Truk Stop, which used the '847 patent without a trapezoidal carriage, demonstrates that the '847 patent had value apart from the trapezoidal carriage. Second, Kelley's continued use of the '847 technology in the Truk Stop for nearly two years after this court's liability decision suggests that alternative noninfringing hook designs did not abound.

The value of the '847 patent was also enhanced by several factors. First, in early 1983 the only vehicle restraints available were Rite-Hite's units and Kelley's infringing Truk Stop (PDTX 35). Plaintiffs would reasonably have demanded a higher royalty when Rite-Hite was the only manufacturer in the restraint market. Second, the plaintiffs would have expected to forego a significant level of profits by granting a license to Kelley, because Kelley was historically a strong competitor in this industry and because plaintiffs anticipated being able to sell a large percentage of restraints in highly profitable restraint-leveler packages (Testimony of George Zahorik; DTX-555 at 3; DTX 556 at 1). Third, Rite-Hite had consistently followed a policy of exploiting its own patents, rather than licensing its patents to competitors (Testimony of Mike White). For these reasons, Rite-Hite would reasonably have insisted upon, and Kelley reasonably would have been willing to pay, a royalty on the '847 patent that would have exceeded the standard royalty rate in the dock industry.

Under these circumstances, this court finds that Rite-Hite would have been willing to grant a competitor a license to use the '847 technology only if Rite-Hite received a royalty equal to no less than one half of the per unit profits that it was foregoing (Testimony of Robert Beart).

This court declines to adopt Kelley's estimate of a reasonable royalty. Kelley attempted to establish a standard royalty rate in the dock industry by referring to several license agreements and settlement agreements. Expert witnesses Thomas Hinkes and Robert Kuhns estimated that a reasonable royalty would range

from two to five percent of Kelley's net sales price on the Truk Stop (Testimony of Thomas Hinkes & Robert Kuhns). Hinkes' estimate is unpersuasive because it is based upon Hinkes' experience of negotiating nonexclusive licenses with noncompetitors. Kuhns' estimate is also of limited relevance, because it is based upon royalties contained in settlement agreements. Such settlement-induced royalty agreements are determined largely by factors that are not considered in the "hypothetical royalty negotiation" analysis that this court must perform. In negotiating a settlement, the typical patentee is constrained by the risk and expense of litigating a patent suit. Risk and expense are not factors in the hypothetical royalty negotiation, however, because the patentee is presumed to know that the patent is valid and infringed. Settlement agreements are therefore not an accurate gauge of a reasonable royalty.

This court also places little weight upon the royalty rate that Mike White paid for Rite-Hite patents when Mike White bought Rite-Hite from his father. Such an intra-family sale is too dissimilar from this hypothetical situation in which one competitor voluntarily grants a novel license to its primary competitor.

For the foregoing reasons, Rite-Hite would reasonably have anticipated in February 1983 that the '847 patent would prove to be as successful as it actually was. This court therefore finds that in a hypothetical royalty negotiation conducted at that time, Rite-Hite and the plaintiff ISO's would have been able to estimate accurately the profits that they would forego by granting Kelley a license to use the '847 patent for the period of infringement. Kelley's infringement caused Rite-Hite to lose 3,323 Truk Stop sales, 1,692 of which were package restraint-leveler sales; Rite-Hite as a manufacturer thereby lost wholesale profits averaging $1,540.34 per Kelley restraint sale, when Rite-Hite's lost wholesale profits on both restraints and levelers in restraint-leveler packages are taken into account (PDTX-4 at 7). This court finds that Rite-Hite as a manufacturer is entitled to a royalty equal to approximately fifty percent of its estimated lost profits per restraint sale, or a royalty of

$770 per restraint on the 502 infringing sales for which Rite-Hite does not receive lost profits damages.

The ISO's and Rite-Hite owned sales organizations claim to have lost $824.19 in distribution income per infringing sale made in their respective territories (*See* PDTX-4 at 32). This court finds that Rite-Hite as a retailer and the ISO's are entitled to a reasonable distribution royalty amounting to approximately one-third of this amount, or a royalty of $275 per infringing sale. This court has discounted the plaintiffs' lost profits claims by two-thirds in order to deduct an adequate amount of avoided sales commission costs from plaintiffs' claims.[19]

This court finds therefore finds that: (1) Rite-Hite is entitled to manufacturer's royalty of $770 per restraint on the 502 infringing restraint sales for which Rite-Hite is not entitled to lost wholesale profits, amounting to a total of $386,540.00, excluding interest (PDTX-4 at 36); and (2) Rite-Hite as a retailer and the ISO's are entitled to distribution royalties of $275.00 per restraint on all 3,825 infringing Truk Stop sales made during the period of infringement, amounting to a total of $1,051,875.00, excluding interest.

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[19] The amount of this deduction is reasonable, because it is roughly consistent with the commission expenditures that ISO W.E. Carlson probably would have avoided, based upon its historical experience. W.E. Carlson's gross profits on product sales increased by $427,000 during the period of infringement, while commission expenses increased by $283,000 during this period; thus W.E. Carlson's commission expenses increased by approximately 66 cents for every dollar increase in gross profits on product sales. Although plaintiffs' counsel asserts that not all of the representative organizations paid such commission income (Plaintiffs' Reply Trial Brief at 13 & n.7), these organizations have not been identified. Moreover, plaintiffs cannot complain that this court has relied unduly upon the cost behavior of this ISO, given that the plaintiffs requested this court to draw general conclusions about the sales organizations' operating profits and expenses based upon W.E. Carlson's cost behavior.

L. *Plaintiffs' Claims for Lost Profits Due to Price Cuts On Actual Sales*

This court finds that Rite-Hite as a retailer and the ISO's have failed to prove their claim for lost profits due to price erosion to a reasonable probability. Plaintiffs' damages for price cuts are too speculative, because plaintiffs might have had to make these price cuts even absent Kelley's infringing competition. Moreover, unlike plaintiffs' evidence of lost sales, which is corroborated by market share analysis, plaintiffs' evidence of price erosion is uncorroborated. Plaintiffs are therefore not entitled to recover "price erosion" damages.

III. CONCLUSIONS OF LAW

A. *ISO's Entitlement to Damages*

The ISO's are entitled to damages for Kelley's infringement of the '847 patent, because they were exclusive territorial licensees under the '847 patent and all other Rite-Hite vehicle restraint patents, including the patents covering the ADL-100 model vehicle restraint. *See Weinar v. Rollform*, 744 F.2d 797, 806-07, (Fed.Cir.1984), *cert. denied*, 470 U.S. 1084, 105 S.Ct. 1844, 85 L.Ed.2d 143 (1985). In *Weinar*, the Federal Circuit held that both a patentee and an exclusive territorial licensee, "sharing the property rights represented by a patent may have their respective rights protected by injunction and each, when properly joined in a suit, may be entitled to damages." *Id.* at 807. Permitting Rite-Hite and the ISO's to sue for damages is reasonable because the patent interests of all these parties were injured, and this case does not present any danger of multiple recoveries. *See Id.*

This court holds that salespersons employed by the sales organizations are not entitled to recover damages as agents of the exclusive licensee-sales organizations, because no legal authority supports such recovery.

B. *Rite-Hite's Right to Recover Lost Profits Damages on Lost Sales of Rite-Hite ADL-100 Units*

Kelley concedes that plaintiffs may seek lost profits damages on lost sales of the Rite-Hite MDL-55, because it contains the '847 patent in suit (Kelley's Proposed Findings of Fact and Conclusions of Law, ¶¶ 54, 56). However, Kelley disputes whether plaintiffs may recover lost profits on lost sales of the Rite-Hite ADL-100, which is covered by Rite-Hite patents other than the '847 patent, and which accounts for the majority of plaintiffs' lost profit claim (*See* PDTX-3). This court has already held that the ISO's and Rite-Hite as a retailer are limited to recovery of reasonable royalty damages on lost retail sales. Thus, the remaining lost profits issue concerns whether Rite-Hite as a manufacturer may recover lost wholesale profits damages for lost sales of the ADL-100, a product not containing the patent in suit. This court concludes that 35 U.S.C. § 284 entitles Rite-Hite to recover such lost wholesale profits.

1. *Standard for Recovery of Lost Profits Damages*

A patent confers upon the patentee, for the statutory period, the right "to exclude others from making, using, or selling the invention . . .". 35 U.S.C. § 154. Pursuant to 35 U.S.C. § 284, a patent owner whose patent has been infringed is entitled to "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." In *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507, 84 S.Ct. 1526, 1543, 12 L.Ed.2d 457 (1964), the Supreme Court established the proper method for calculating damages under § 284:

> [Damages under 35 U.S.C. § 284] constitute "the difference between [the patent holder-licensee's] pecuniary condition after the infringement, and *what his [pecuniary] condition would have been if the infringement had not occurred.*" The

> question to be asked in determining damages is ". . . primarily: had the [i]nfringer not infringed, what would [p]atent [h]older-[l]icensee have made?"

(citations omitted) (emphasis added) (first quoting *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552, 6 S.Ct. 934, 942, 29 L.Ed. 954 (1886); second quoting *Livesay Window Co. v. Livesay Ind., Inc.*, 251 F.2d 469, 471 (5th Cir.1958). *See also Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1064, 219 U.S.P.Q. 670 (Fed.Cir.1983). In holding that § 284 ordinarily authorizes the award of prejudgment interest, the Supreme Court in *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1982) emphasized that "Congress' overriding purpose [in § 284 was to afford] patent owners complete compensation." *Id.* at 655, 103 S.Ct. at 2062. Thus, the Supreme Court has consistently interpreted § 284 as authorizing damages awards sufficient to compensate the patentee for all the monetary losses that he has suffered as a result of infringement.

The Federal Circuit has accordingly instructed that lost profits are the preferred measure of the damages under § 284:

> The general rule for determining the actual damages to a patentee that is itself producing the patented item, is to determine the sales and profits lost to the patentee because of the infringement. Although the statute states that the damage award shall not be "less than a reasonable royalty" . . . the purpose of this alternative is not to provide a simple accounting method, but to set a floor below which the courts are not authorized to go.

Del Mar Avionics Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1326, 5 U.S.P.Q.2D 1255 (Fed.Cir.1987). In order to recover lost profits damages, "a patentee must show a reasonable probability that, but for the infringement, it would have made the sales that were made by the infringer." *Id.; see also Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 197 U.S.P.Q. 726

(6th Cir.1978). The issue of whether a court should award lost profits damages or a reasonable royalty under § 284 thus turns primarily upon the quality of plaintiffs' proof of lost profits. Neither § 284 nor controlling case law restricts the recovery of lost profits damages any further.

2. *Arguments of the Parties on the Recovery of Lost Profit Damages*

Because this court has found no authorities setting forth a well-reasoned rule on this issue, this court addresses the arguments of the parties in detail.

Kelley argues that 35 U.S.C. § 284 does not authorize a patentee to recover damages for lost sales of products not covered by the patent in suit, even when those products are covered by other patents held by the patentee. Kelley makes two basic arguments in support of its position. First, it makes the "causation" argument that plaintiffs cannot demonstrate that the infringement actually "caused" lost sales of the ADL-100, because the ADL-100 did not embody the patent in suit. Second, Kelley makes the "antitrust" argument that Rite-Hite may not use its '847 license to recover damages on the lost sales of the ADL-100, because such a recovery would constitute an extension of the patent to other devices that lie outside the limited monopoly of the patent.

This court is unpersuaded by Kelley's arguments. The cases that Kelley cites in support of its "causation" argument are distinguishable from the case at bar. Kelley's reference to *Ellipse Corp. v. Ford Motor Co.*, 461 F.Supp. 1354 (N.D.Ill.1978), *aff'd* 614 F.2d 775 (7th Cir.1979), *cert. denied* 446 U.S. 939, 100 S.Ct. 2160, 64 L.Ed.2d 792 (1980) is misplaced, because the patentee in that case, unlike Rite-Hite, manufactured no products at all during the period of infringement, leading the district court to conclude that the patentee was entitled only to a reasonable royalty and not lost profits. 461 F.Supp. at 1360-62, 1379. *Peterson Filters & Engineering Co. v. Envirotech Corp.*, 178 U.S.P.Q. 337 (D.Utah 1973) is

also distinguishable. The *Peterson Filters* court declined to award lost profits damages for two primary reasons: (1) the plaintiff-licensee did not make any competing bids in several of the infringing transactions, *Id.* at 343-49, and (2) in the three infringing transactions in which the licensee did make a bid, the defendants did not actually supply any infringing products, but instead supplied similarly-functioning noninfringing devices. *Id.* at 343. Thus, the defendants in *Peterson Filters*, at worst, merely led the customer "to believe that it would be supplied with infringing apparatus." *Id.* at 344.

Although *Standard Mailing Machines Co. v. Postage Meter Co.*, 31 F.2d 459 (D.Mass.1929) and *Metallic Rubber Tire Co. v. Hartford Rubber Works*, 275 F. 315 (2d Cir.), *cert. denied*, 257 U.S. 650, 42 S.Ct. 57, 66 L.Ed. 416 (1921), support Kelley's position that lost profits damages may not be recovered on lost sales of products not embodying the patent in suit, these cases are unpersuasive. Both cases apply the pre-1946 patent damages statute which provided for the recovery of an *infringer's* profits rather than the patentee's damages. In addition, the holdings of these cases are unsupported by any discernible rationale. [20] Finally, *Standard Mailing Machines Co.* is factually distinguishable, because the court found that acceptable noninfringing substitutes were available for both the patented and unpatented products for which plaintiff sought lost profits damages. 31 F.2d at 462.

The cases that Kelley cites in favor of its "antitrust" argument are also inapposite. *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 58 S.Ct. 288, 82 L.Ed. 371 (1938), *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27, 51 S.Ct. 334, 75 L.Ed.

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[20] The *Standard Mailing Machines* court supported its legal conclusion with little more than the following reasoning: "If the plaintiff was in the market in competition with the defendant with a machine that did not embody the patented invention, it is difficult to understand how the plaintiff had been injured by the acts of the defendant." 31 F.2d at 462. The court thus did not meaningfully consider the patentee's right to recover lost profit damages on products not embodying the patent in suit.

819 (1931), and *Velo-Bind, Inc. v. Minnesota Mining & Mfg. Co.*, 647 F.2d 965 (9th Cir.), *cert. denied*, 454 U.S. 1093, 102 S.Ct. 658, 70 L.Ed.2d 631 (1981) merely stand for the proposition that a patentee may not recover lost profits on lost future sales of *unpatented* consumables that would have followed the sale of the patented device. *E.g., Velo-Bind*, 647 F.2d at 972; *Carbice Corp.*, 283 U.S. at 33, 51 S.Ct. at 336. These cases do not pertain to the proper measurement of damages for patent infringement; instead they state only that a patentee may not tie the use of a patent to the use of other *unpatented* consumables. Here, plaintiffs seek damages for lost sales of another of their patented machines, not unpatented consumables. *Ethyl Gasoline v. United States*, 309 U.S. 436, 60 S.Ct. 618, 84 L.Ed. 852 (1940) is also inapposite, because it concerns only the antitrust implications of a patentee's efforts to control the conduct of the licensee by fixing prices, which issue is not present here.

Kelley also has not explained why Rite-Hite's recovery of *lost profits damages* on lost ADL-100 sales unduly extends the patent monopoly, when Kelley concedes that plaintiffs are entitled to a reasonable royalty damages on lost ADL-100 sales (Kelley's proposed findings of fact and conclusions of law, ¶ 59).[21]

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[21] This court recognizes, however, that permitting the recovery of lost profits damages on lost sales of items not embodying the patent in suit would enhance the value of a patent to a patentee who sells competing products covered by different patents. For example, in this case, Rite-Hite recovers lost profits damages based on both lost MDL-55 and ADL-100 sales, because Kelley's infringement of Rite-Hite's '847 patent did in fact cause Rite-Hite to lose these sales. If, hypothetically, Rite-Hite had patents covering only the MDL-55 and a third party had patents covering the ADL-100, Rite-Hite's remedy would be limited to no more than either (1) a reasonable royalty on use of the '847 patent or (2) lost profits on the lost MDL-55 sales. Thus, the fact that Rite-Hite markets both the ADL-100 and the MDL-55 does increase the value of the MDL patents to it.

This result is not necessarily inequitable or inefficient, however, because Rite-Hite's ownership of one restraint technology, such as that covered by the '847 patent, increases the value that Rite-Hite would place on a competing technology, such as the pivoted hook technology used in the ADL-100, because ownership of both patents strengthens Rite-Hite's position in the market. Thus,

This court is also not persuaded by plaintiffs' argument that *State Industries v. Mor-Flo Industries*, 883 F.2d 1573, 12 U.S.P.Q.2D 1026 (Fed.Cir.1989), *cert. denied*, 493 U.S. 1022, 110 S.Ct. 725, 107 L.Ed.2d 744 (1990) authorizes the recovery of lost profits on lost sales of products covered by another of the plaintiffs' patents. In *State Industries*, State had two patents: the '377 patent claiming a method of insulating the tank of a water heater and a '543 patent claiming water heaters using the '377 construction. *Id.* at 1575. In deciding what share of the market, and consequently what share of Mor-Flo's sales should be subject to lost profits damages, the Federal Circuit stated:

> If the court is correct in its findings that the other competitors were likely infringers of *one or the other of State's patents*, State would have been entitled to their shares of the market on top of its own, and a correspondingly greater share of Mor-Flo's sales.

883 F.2d at 1578 (emphasis added). *State Industries* entitles Rite-Hite to recover lost profits damages on the ADL-100 only if this court assumes that Kelley's Truk Stop infringed a patent covered by the ADL-100, which has not been demonstrated.

3. *Decision on Lost Profits Issue*

This court recognizes the tension between the policy of complete compensation for infringement underlying § 284 and the antitrust policy against unduly extending the monopoly granted by the patent. Under the facts of this case, this tension is best resolved by awarding Rite-Hite lost profits damages on the lost ADL-100 sales.

The basic facts of this case can be summarized as follows. Rite-Hite and the Rite-Hite sales organizations spent great amounts of

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in this case, Rite-Hite's ownership of the pivoted hook technology in the ADL-100 would increase the value that Rite-Hite would place on its "right to exclude" use of the alternate hook technology of the '847 patent.

time, effort, and money to develop an entirely new vehicle restraint market. In doing so, plaintiffs invented and marketed two different patented vehicle restraint hook technologies, both of which achieved commercial success. The first was the "pivoted hook" technology used in the ADL-100, and the second was the "vertical moving hook" technology covered by the '847 patent and used in the MDL-55.

By inspecting the MDL-55 and borrowing the '847 technology, Kelley developed its Truk Stop restraint much earlier than would otherwise have been possible. As an automatically-functioning model, the Truk Stop was intended primarily to compete against Rite-Hite's similarly-featured ADL-100 unit. Kelley marketed the Truk Stop successfully, causing plaintiffs to lose 3,243 ADL-100 sales and 80 MDL-55 sales. Under these facts, this court holds that Rite-Hite's right to exclude use of the '847 patent entitled it to recover its lost wholesale profits on the lost ADL-100 sales.

Awarding Rite-Hite its lost wholesale profits on lost ADL-100 sales is appropriate for three reasons. First, such an award of lost profits damages upholds the basic statutory purpose underlying § 284, which is to afford "complete compensation" for infringement, *Aro Mfg. Co.*, 377 U.S. at 507, 84 S.Ct. at 1543; *see also General Motors Corp.*, 461 U.S. at 655, 103 S.Ct. at 2062, because Rite-Hite has shown to a reasonable probability that it would have made these wholesale profits but for Kelley's infringement. *Del Mar Avionics*, 836 F.2d at 1326. Second, such an award merely compensates Rite-Hite for the ADL-100 sales that Kelley anticipated taking from Rite-Hite when it marketed the Truk Stop against the ADL-100. The rule applied here therefore does not extend Rite-Hite's patent rights excessively, because Kelley could reasonably have foreseen that its infringement of the '847 patent would make it liable for lost ADL-100 sales in addition to lost

MDL-55 sales. *See Velo-Bind*, 647 F.2d 965.[22] Third, this rule avoids the absurd result produced by the rule that Kelley urges. Under Kelley's proposed rule, Kelley could develop a machine to compete with the ADL-100 by using the '847 technology contained in the MDL-55, and conversely, develop a machine to compete with the MDL-55 by using patented technology in the ADL-100. Through such a "whipsaw" technique, Kelley could avoid paying lost profits damages for lost sales of either device, as Kelley's liability would be limited to reasonable royalty damages. Such a result would be inconsistent with the underlying policy of "complete compensation."

C. *Whether Rite-Hite has Satisfied the Panduit Test for Recovery of Lost Profits Damages*

In order to recover its lost wholesale profits as damages, Rite-Hite must show (1) that it would have made the claimed lost sales but for Kelley's infringement, and (2) the amount of profit that it would have made on those sales. *Kaufman Co. v. Lantech, Inc.*, 926 F.2d 1136, 1141 (Fed.Cir.1991). In proving damages, "the patent owner's burden of proof is not absolute, but rather one of reasonable probability." *Kori Corp. v. Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649, 653, 225 U.S.P.Q. 985 (Fed.Cir.), *cert. denied*, 474 U.S. 902, 106 S.Ct. 230, 88 L.Ed.2d 229 (1985).

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[22] This court notes that the issue of whether Rite-Hite is entitled to lost profit damages or a reasonable royalty becomes moot if the court awards a royalty rate that approximates the amount of lost profits damages. The Federal Circuit has acknowledged that the amount of the royalty should be that amount that adequately compensates for the infringement, and that the court has the discretion to increase the reasonable royalty award to accomplish that compensatory purpose. *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed.Cir.1983). Other courts have awarded such high royalty rates on occasion. *See, e.g., Santa Fe-Pomeroy, Inc. v. P & Z Co.*, 212 U.S.P.Q. 417 (N.D.Cal.1980) (awarding royalty in a suit between competitors equalling 100% of profit that patent owner would have made on infringing sales). Therefore, if the lost profits damages remedy on lost ADL-100 sales were unavailable, this court would have awarded Rite-Hite a manufacturer's royalty equal to its lost wholesale profits on lost ADL-100 sales and lost ADL-leveler package sales.

The patentee, therefore, "is not obliged to negate every possibility that a purchaser might not have bought the patentee's product instead of the infringing one, or might have foregone the purchase altogether." *Del Mar Avionics*, 836 F.2d at 1326. In *Panduit*, the Federal Circuit approved what has become the standard test for determining whether the patentee is entitled to lost profit damages. *Kaufman*, 926 F.2d at 1140. Under the *Panduit* test, Rite-Hite may recover lost profits damages by establishing the following: (1) demand for the patented product, (2) an absence of acceptable noninfringing substitutes, (3) manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit the patentee would have made. *Panduit*, 575 F.2d at 1156.

Rite-Hite has satisfied these elements as follows: First, the substantial demand for the infringing Truk Stop satisfies the "demand" element of the test. *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 552, 222 U.S.P.Q. 4 (Fed.Cir.1984). Second, Rite-Hite has shown that nonrestraint devices, such as wheel chocks, were unacceptable, and that alternative noninfringing restraint units were unavailable to the purchasers of the infringing Truk Stop. Kelley's evidence of the mere theoretical availability of other restraint devices is insufficient to overcome Rite-Hite's proof that these alternative restraints were unacceptable or unavailable to the actual purchasers of the infringing Truk Stop. *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 901, 229 U.S.P.Q. 525 (Fed.Cir.), *cert. denied*, 479 U.S. 852, 107 S.Ct. 183, 93 L.Ed.2d 117 (1986). Third, Rite-Hite has also demonstrated that it possessed sufficient marketing and manufacturing capabilities to exploit the demand. Finally, as discussed below, Rite-Hite has met its burden of proving the profits they would have made.

The *Panduit* test is a "nonexclusive standard for determining lost profits," *State Industries*, 883 F.2d at 1577, and the plaintiffs have also corroborated their lost profits claim through the now-accepted market share method. *Id.* at 1578. Under the market share method, Rite-Hite would be entitled to a pro rata share of

Kelley's infringing sales, based upon Rite-Hite's share of the noninfringing restraint market. *Id.* Rite-Hite's share would also include the share of the market that Serco gained with its infringing sales in addition to plaintiffs' own share. *Id.*

Although the amount of lost profits cannot be speculative, it need not be proved with unerring precision. *Bio-Rad Labs v. Nicolet Instrument Corp.*, 739 F.2d 604, 222 U.S.P.Q. 654 (Fed.Cir.), *cert. denied*, 469 U.S. 1038, 105 S.Ct. 516, 83 L.Ed.2d 405 (1984). When the amount of damages cannot be determined precisely, "any doubts regarding the amount must be resolved against the infringer." *Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1428, 8 U.S.P.Q.2D 1323 (Fed.Cir.1988). Rite-Hite adequately documented and calculated its claim for lost wholesale profits through its incremental method of accounting. Under this accepted method, *see Paper Converting Machine Co. v. Magna Graphics Corp.*, 745 F.2d 11, 22, 223 U.S.P.Q. 591 (Fed.Cir.1984), Rite-Hite calculated the total gross income that it lost as a result of the infringement and deducted from that amount the incremental expenses that it avoided by not making the infringer's sales. The plaintiffs properly did not deduct unpaid income tax from their claim. *Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1483, 16 U.S.P.Q.2D 1093 (Fed.Cir.1990). However, Rite-Hite as a retailer and the plaintiff ISO's must deduct from their claims the sales commissions that they avoided on the lost sales, because the plaintiffs have not demonstrated that they are legally obliged to pay their salespeople such commissions out of the proceeds of this case.

Rite-Hite as a manufacturer proved its lost profits to a reasonable probability, but Rite-Hite as a retailer and the ISO's have failed to meet this burden, because they failed to deduct their avoided sales commission costs. Although the plaintiffs have represented that not all the representatives in fact paid sales commissions (Plaintiffs' Reply Trial Brief at 13), those representatives have not been specifically identified. All of the Rite-Hite sales

organizations, both Rite-Hite owned and ISO's, therefore failed to meet their evidentiary burden of proving lost profits, and accordingly are entitled only to reasonable royalty damages. 28 U.S.C. § 284; *Panduit*, 575 F.2d at 1156.

D. *Plaintiffs Recovery of Damages for Lost Profits on Dock Leveler Sales*

Kelley argues that dock levelers should not be included in the royalty base or in the calculations of lost profit damages. Kelley contests the applicability of the "entire market value rule" here for two reasons. First, Kelley argues that the entire market value rule should not be applied to dock leveler-restraint packages, because levelers have "economic value" independent of restraints. Second, Kelley argues that under the entire market value rule, the sales of collateral items such as dock levelers must be tied to the sale of items containing the infringed patent (MDL restraints) in order to be included in the damages award. This court rejects Kelley's arguments, because the proper test of entire market value is not whether the items have any economic value independent of the restraint, but whether the sale of levelers is highly dependent upon the sale of restraints under the standard procedure for marketing restraints.

The entire market value rule permits recovery of damages based on the value of an entire apparatus containing several features, when the feature patented constitutes the basis for customer demand. *TWM Mfg.*, 789 F.2d at 901. It is the " 'financial and marketing dependence on the patented item under standard marketing procedures' which determines whether the non-patented features of a machine should be included in calculating compensation for infringement." *Kori Corp.*, 761 F.2d at 656 (quoting *Leesona Corp. v. United States*, 599 F.2d 958, 974, 202 U.S.P.Q. 424, *cert. denied*, 444 U.S. 991, 100 S.Ct. 522, 62 L.Ed.2d 420 (1979)). For example, in *Paper Converting Machine Co.*, the Federal Circuit affirmed the award of damages on

unpatented auxiliary units which were not integral parts of the patented item and which had separate usage, because the auxiliary units operated together with the patented item to complete a single manufacturing process. 745 F.2d at 23. In establishing lost profits, "[t]he deciding factor . . . is whether '[n]ormally the patentee (or its licensee) can anticipate sale of such unpatented components as well as of the patented' ones." *Paper Converting Machine Co.*, 745 F.2d at 23 (quoting *Tektronix, Inc. v. United States*, 552 F.2d 343, 351, 213 Ct.Cl. 257 (1977), *cert. denied*, 439 U.S. 1048, 99 S.Ct. 724, 58 L.Ed.2d 707 (1978)). Thus, if a patentee or hypothetical licensee can anticipate "an increase in sales of collateral unpatented items because of the patented device, the patentee should be compensated accordingly." *TWM Mfg. Co.*, 789 F.2d at 901.

Although in all previous cases the entire market value rule has been applied only in those cases in which the collateral item has been attached directly to the patented item, this court concludes that the reasoning behind these cases does not preclude application of the entire market value rule to leveler sales that would have been packaged with the ADL-100. Once this court has determined that Rite-Hite lost a very significant number of ADL-100 sales because of Kelley's infringement, it would be anomalous to include in plaintiffs' awards only the leveler sales that would have been made in MDL-55-leveler package sales, but to exclude the leveler sales that would normally have been made in ADL-100-leveler package sales. Kelley's ability to sell levelers in the package Truk Stop-leveler sales was dependent upon Kelley's use of the '847 technology: Kelley's infringement of the '847 patent permitted it to sell the Truk Stop restraint which in turn permitted Kelley to sell a significant number of levelers.

This application of the entire market value rule proceeds from the overriding rule that a patentee can recover as damages all profits from lost sales upon proof that, "but for" the infringement, it would have made on the sales. *Kori*, 761 F.2d at 655. As the Supreme Court stated in *Aro Mfg.*, the essential question is: "had

the [i]nfringer not infringed, what would the [p]atent [h]older-[l]icensee have made?" 377 U.S. at 507, 84 S.Ct. at 1543. This extension of the entire market value rule is justified here where: (1) plaintiffs expended significant amounts of effort and money to develop an entirely new vehicle restraint market, (2) plaintiffs developed two alternative, successful, and patented restraining hook technologies for exploiting that market, (3) both plaintiffs and Kelley normally anticipated selling levelers along with restraints in a high percentage of restraint sales, and (4) the defendant's infringement of one of the restraining hook technologies caused the plaintiffs to lose sales of units embodying both technologies, in addition to packaged leveler sales.

E. *Reasonable Royalty*

Plaintiffs are entitled to a reasonable royalty on Kelley's infringing sales on which plaintiffs are not entitled to lost profit damages. 35 U.S.C. § 284; *Bio-Rad Laboratories*, 739 F.2d at 615-16. A reasonable royalty is determined by imagining a fictitious situation in which the plaintiffs and the defendant would have "willingly" negotiated a royalty agreement at the time infringement began and then imagining what the royalty in such a situation would have been. *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1079, 219 U.S.P.Q. 679 (Fed.Cir.1983).

The reasonable royalty rate is determined by reference to several basic guidelines. Where, as here, the plaintiffs and defendant are competitors, the patent holder will be entitled to a higher royalty rate. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116, 1124, 166 U.S.P.Q. 235 (S.D.N.Y.1970), modified and aff'd, 446 F.2d 295, 170 U.S.P.Q. 369 (2d Cir.), *cert. denied*, 404 U.S. 870, 92 S.Ct. 105, 30 L.Ed.2d 114 (1972). The reasonable royalty should also be higher in this case because Rite-Hite had a policy of not licensing its competitors. *Id.*, 318 F.Supp. at 1127. Additionally, a higher rate should be awarded during the most valuable years of the life of a patent, *Pitcairn v. United States*, 547

F.2d 1106, 1117, 212 Ct.Cl. 168, 192 U.S.P.Q. 612, 618 (1976), *cert. denied*, 434 U.S. 1051, 98 S.Ct. 903, 54 L.Ed.2d 804 (1978), such as at the beginning of the life of the patent, when no other competitors were present. Finally, the royalty rate should take into account the profits that the licensor would have foregone both on the lost sales of the product in competition with the licensed product and on unpatented products, such as levelers which are typically sold with the patented product. *Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 1559, 218 U.S.P.Q. 481, 487 (Fed.Cir.1983).

Applying these factors, this court finds that the royalty rates set forth in Sec. II.K of this decision are reasonable.

F. ***Prejudgment Interest***

Under 35 U.S.C. § 284, the trial court shall ordinarily award prejudgment interest to a patent plaintiff who is entitled to damages. *General Motors v. Devex*, 461 U.S. 648, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983). Prejudgment interest applies to both the award of lost profits damages as well as reasonable royalty damages. *Gyromat*, 735 F.2d at 556. The trial court has substantial discretion to determine the rate of prejudgment interest, *Kaufman*, 926 F.2d at 1144-45, and may award prejudgment interest at a simple or compound rate. *Gyromat*, 735 F.2d at 554.

Here, this court awards prejudgment interest at the prime rate on both the lost profit damages and the reasonable royalty damages. This court uses the prime rate for fixing prejudgment interest for two reasons. First, the prime rate is an easily ascertainable figure that generally "provides a reasonable although rough estimate of the interest rate necessary to compensate plaintiffs not only for the loss of the use of their money but also for the risk of default." *Gorenstein Enterprises v. Quality Care-USA*, 874 F.2d 431, 436 (7th Cir.1989). This court has not received evidence on the risk of default by Kelley, and it expresses no view on this subject. This court notes, however, that the risk of default is

seldom trivial, and if this court is to effectuate the congressional purpose of affording complete compensation to the patent holder, it should take such risk of default into account. The Court of Appeals for the Seventh Circuit noted in *Gorenstein*:

> The defendant who has violated the plaintiff's rights is in effect a debtor of the plaintiff until the judgment is entered and paid or otherwise collected. At any time before actual payment or collection of the judgment the defendant may default and the plaintiff come up empty-handed. The plaintiff is an unsecured, uninsured creditor, and the risk of default must be considered in deciding what a compensatory rate of interest would be.

874 F.2d at 436. Second, Rite-Hite borrowed substantial sums of money at or above the prime rate during the period of infringement (*See* PDTX-54). Thus, in this case, awarding interest at the prime rate not only compensates plaintiffs for the risk of default, but it also compensates them for the true opportunity cost of losing profits to Kelley during the period of infringement.

The interest period for each infringing sale shall run from the date of last day of the month of each infringing sale to the date of judgment.

IV. TOTAL DAMAGES

This court orders the plaintiffs to submit proposed judgments calculating each plaintiff's damages in accordance with this order.

IT IS THEREFORE ORDERED that within fourteen (14) days of this date plaintiffs shall submit, pursuant to Fed.R.Civ.P. 58, proposed judgments consistent with this decision and order. Plaintiffs shall also submit accountings calculating each plaintiff's damages, which accountings shall make all necessary references to this decision and order.

IT IS FURTHER ORDERED that within twenty-four (24) days of this date, Kelley may submit a response to the plaintiffs' proposed judgments and accountings.

RITE-HITE CORPORATION, ET AL.,

Appellees, Cross-appellants,

v.

KELLEY COMPANY, INC.,

Appellant, Cross-appellee.

Appeal Nos. 86-1096, 86-1158.

UNITED STATES COURT OF APPEALS,
FEDERAL CIRCUIT.

819 F.2d 1120, 2 USPQ2d 1915

May 21, 1987

Before SMITH, NEWMAN, and BISSELL, Circuit Judges.

PAULINE NEWMAN, Circuit Judge.

Kelley Company, Inc. ("Kelley") appeals the judgment of the United States District Court for the Eastern District of Wisconsin, *Rite-Hite Corp.*[1] *v. Kelley Co.*, 629 F.Supp. 1042, 231 U.S.P.Q. 161 (E.D.Wis. 1986), holding not invalid and infringed certain claims of U.S. Patent No. 4,373,847 ("the '847 patent") owned by Rite-Hite Corporation. Injunctive relief was granted, but stayed during pendency of this appeal. Rite-Hite cross-appeals the district court's failure to find willful infringement and its denial of attorney

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[1] Appellees/Cross-appellants are Rite-Hite Corp., Acme Dock Specialists, Inc., Allied Equipment Corp., Anderson Material Handling Co., Applied Handling, Inc., W.E. Carlson Corp., R.B. Curlin, Inc., Equipment Systems, Inc., Great Northern Industrial Prod., Inc., HOJ Engineering & Sales Co., Inc., Indy Equipment Co., Inc., Johnson Equipment Co., Keller Equipment Co., Inc., King Industrial Equipment, Inc., Loading Dock Equipment Co., Inc., McCormick Equipment Co., Inc., Metro Dock Specialists, Inc., Mid-Atlantic Handling Systems, Inc., Niehaus Industrial Sales, Inc., Northway Material Handling Co., Inc., Rice Equipment Co., Stokes Equipment Co., Inc., Timbers & Assoc., Inc., Todd Equipment Corp., U.S. Materials Handling Corp., Johnl & Associates, Inc., and Stordox Equipment Co., hereinafter collectively referred to as "Rite-Hite".

fees and multiplied damages. We affirm the district court's judgment.

I

The '847 patent, invention of Steven J. Hipp and Norbert Hahn entitled "Releasable Locking Device", is for an apparatus for securing a parked vehicle such as a truck, to an adjacent upright structure such as a loading dock, in order to prevent the truck from pulling away during loading or unloading. The district court found that the device was the result of a "long and arduous" development program, *Rite-Hite*, 629 F.Supp. at 1048, 231 U.S.P.Q. at 163, was an advancement in the art of vehicle restraints, *id.*, at 1049, 231 U.S.P.Q. at 164, and achieved commercial success, *id.*, at 1051, 231 U.S.P.Q. at 166.

Claim 1, the broadest claim, is as follows:

> 1. A releasable locking device for securing a parked vehicle to an adjacent relatively stationary upright structure, said device comprising
>
> (a) a first means mountable on an exposed surface of the structure,
>
> (b) a second means mounted on said first means for substantially vertical movement relative thereto between operative and inoperative modes,
>
> (c) the location of said second means when in an inoperative mode being a predetermined distance beneath the location of said second means when in an operative mode and in a noncontacting relation with the vehicle, and
>
> (d) third means for releasably retaining said second means in an operative mode,
>
> (e) said second means including a first section projecting outwardly a predetermined distance from said first means and

the exposed surface of the structure, one end of said first section being mounted on said first means for selective independent movement relative thereto along a predetermined substantially vertical path, and a second section extending angularly upwardly from said first section and being spaced outwardly a substantially fixed distance from said first means and the exposed surface of the structure,

(f) said second means, when in an operative mode, being adapted to interlockingly engage a portion of the parked vehicle disposed intermediate the second section and said first means,

(g) said second means, when in an inoperative mode, being adapted to be in a lowered nonlocking relation with the parked vehicle.

Kelley argues that the district court erred in holding that the claims of the '847 patent were not invalid, and on appeal refers particularly to Taylor U.S. Patent No. 4,148,498 ("the Taylor patent"). The district court held that Kelley had not met its burden of proving invalidity and, following discussion of the prior art, the court stated that "the claimed combination would not have been obvious to one skilled in the art", and that "[e]ven if these [prior art] devices include each of the claimed mechanical elements, their structure, interrelationship, application, and operation vary so drastically and distinctly from the claimed invention that it cannot be found that these devices show the claimed combination." *Id.*, at 1055-56, 231 U.S.P.Q. at 169. No error has been demonstrated in this conclusion.

Kelley asserts that the "pivotal point" in this appeal is the construction of the claims, arguing that Rite-Hite necessarily construed the claims narrowly before the United States Patent and Trademark Office ("PTO") in order to obtain their allowance over the Taylor patent. Kelley states that the scope and validity of the claims in light of the Taylor patent's disclosure was "vigorously

argued" in the district court proceedings, but also argues that Taylor was inadequately weighted and understood by the district court because the court did not specifically refer to Taylor in its findings on validity.

Kelley's arguments with respect to the Taylor patent turn in significant part on the prosecution of the Rite-Hite patent application before the PTO. It is not disputed that the Taylor patent was a cited reference. Kelley's position is that Rite-Hite "quite likely" made oral representations to the examiner "stressing the difference" between Taylor and the claimed invention, in order to obtain allowance of the claims. Kelley charges that Rite-Hite violated PTO regulations pertinent to amendments and interviews with patent examiners, by filing an inadequate record of the interview held in connection with Rite-Hite's petition to expedite the prosecution of its application, implying that Rite-Hite in "callous disregard of the PTO rules" did not record representations made to the examiner.

The PTO record of that interview contains the Examiner Interview Summary Record, a form filled out by the examiner. On the form the examiner had placed a check mark by the printed statement: "It is not necessary for applicant to provide a separate record of the substance of the interview."

The written amendment and response that Rite-Hite mailed to the PTO the day following the interview are consistent with the examiner's record of the interview. In that response Rite-Hite discussed the Taylor trailer hitch as requiring compensation for pitch, roll, and turning movements, and careful alignment of the ball and socket parts of the tractor and trailer "to effect a secure interlocking relation." Rite-Hite distinguished the Taylor problem, and its solution, from its own invention:

> There is no positioning of a ball in a socket or the like required with applicants' structure. In fact, the claimed structure is

capable of automatically compensating for variations in size and shape which commonly occur in ICC bars.

Kelley argues that the amendment and response filed after the interview were not fully responsive as required by 37 C.F.R. §§ 1.111 and 1.133(b). *See also* Manual of Patent Examining Procedure § 713.04 (4th ed. 1979). The examiner did not so hold, upon inspection as required by Manual § 714.05. Kelley has provided neither evidence nor inference to overcome the presumption that the PTO complied with its own rules, including those rules relating to review of the content of amendments filed by an applicant. No irregularity has been shown in the examiner's actions or record of the interview.

The district court correctly did not require more of the patent applicant than was required by the PTO. The record provides no support for Kelley's argument that Rite-Hite "quite likely" took a position before the PTO contrary to its present position. Nor is there support for Kelley's argument that the scope of the claims must be restricted merely because Rite-Hite followed the examiner's instructions and did not file a separate interview summary.

Having been shown no clear error in the factual findings of the district court, and discerning no error of law, we affirm that Kelley has not proven the '847 patent invalid.

II

The burden of proving infringement by a preponderance of the evidence is on the person asserting the patent right. *Hughes Aircraft Co. v. United States*, 717 F.2d 1351, 1361, 219 U.S.P.Q. 473, 480 (Fed.Cir. 1983).

Determination of infringement of claims written in means-plus-function form is governed by 35 U.S.C. § 112 paragraph 6, which states that "such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and

equivalents thereof." The patent specification, other claims in the patent, the prosecution history, and expert testimony may be considered in ascertaining claim scope under section 112. *See King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 862, 226 U.S.P.Q. 402, 408 (Fed.Cir.1985), *cert. denied*, U.S. , 106 S.Ct. 1197, 89 L.Ed.2d 312 (1986); *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 975, 226 U.S.P.Q. 5, 8 (Fed.Cir.1985).

Kelley argues that if the patent claims are construed sufficiently narrowly to preserve their validity in view of the Taylor reference, then the claims also exclude and can not be infringed by the Kelley device. This argument appears to be based in part on Kelley's position, which was not accepted by the district court, that the only element of the '847 claims that could be distinguished from the Taylor reference is the "third means" of claim clause (d).

Looking specifically at the "third means", Taylor teaches the use of a meshed nut-and-screw assembly for raising and lowering Taylor's hook assembly. Kelley argues that this is a direct mechanical analog of Kelley's rack-and-pinion mechanism, and that both these mechanisms are different from the one-way locking ratchet-and-pawl shown in the '847 specification. The district court reviewed the evidence and found the Kelley rack-and-pinion to be equivalent to the ratchet-and-pawl described in the specification:

> While, in the preferred embodiment described in the '847 patent, the first part of the retaining means is a ratchet and the second part is a pawl, the description in column 2 starting at line 2 makes it very clear that the patent is not limited to this particular embodiment. At column 3, line 5, the description makes it clear that other equivalent devices, and in particular elongated vertically extending devices, could be employed instead of a ratchet. At column 4, lines 9-10, the description makes it equally clear that other equivalent devices could be substituted for the pawl. From the testimony of both experts, the Patent Office prosecution history, and the other evidence, it is clear that the rack and pinion of Kelley and the threaded

> shaft of the Taylor, et al. reference, cited by the Examiner, are the equivalent of the ratchet and pawl shown in the particular embodiment described in the '847 patent.

Rite-Hite, 629 F.Supp. at 1050, 231 U.S.P.Q. at 165. The district court further found,

> looking to the prosecution history of the '847 patent, the amendments to the claims and description following the citation of the Taylor, et al., patent makes it clear that the scope of equivalents for the third means is broad.

Id., at 1065, 231 U.S.P.Q. at 176. The district court also referred to non-asserted claims in the '847 patent, which specifically recite a ratchet-and-pawl as the "third means". The court's conclusion that the scope of the asserted claims is not limited to a ratchet-and-pawl accords with the rule that "[w]here some claims are broad and others narrow, the narrow claim limitations cannot be read into the broad". *D.M.I., Inc. v. Deere & Co.*, 755 F.2d 1570, 1574, 225 U.S.P.Q. 236, 239 (Fed.Cir.1985) (quoting *Deere & Co. v. International Harvester Co.*, 658 F.2d 1137, 1141, 211 U.S.P.Q. 11, 16 (7th Cir.), *cert. denied*, 454 U.S. 969, 102 S.Ct. 514, 70 L.Ed.2d 386 (1981)).

We discern no error in the district court's review of the specification and claims, the prosecution history, and the teachings of Taylor, in its construction of the '847 claims.

In determining the question of infringement, the court applied each clause of the '847 patent claims to the Kelley device, and found that the limitations of each clause were literally present in that device. *Rite-Hite*, 629 F.Supp. at 1059, 231 U.S.P.Q. at 171-72. For each "means" limitation except the "third means" of claim clause (d) the accused device was found to contain the same structure illustrated in the specification. For the third means, the district court found that the "rack and pinion is interchangeable with a ratchet and pawl and is the clear equivalent of a ratchet and pawl for releasably retaining the hook in its operative position". *Id.*,

629 F.Supp. 1042, 231 U.S.P.Q. at 172. Interchangeability is a useful consideration when determining whether two specific structures are equivalents. *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, 339 U.S. 605, 609, 70 S.Ct. 854, 856, 94 L.Ed. 1097 (1950); *Lockheed Aircraft Corp. v. United States*, 213 Ct.Cl. 395, 553 F.2d 69, 82, 193 U.S.P.Q. 449, 461 (1977).

The district court's finding of literal infringement in terms of 35 U.S.C. § 112 paragraph 6, not having been shown to be clearly erroneous, is affirmed. *See Anderson v. City of Bessemer City, N.C.*, 470 U.S. 564, 573, 105 S.Ct. 1504, 1511, 84 L.Ed.2d 518 (1985). We thus need not separately review the district court's additional finding of infringement in terms of the doctrine of equivalents.

Willfulness

On cross-appeal, Rite-Hite objects to the district court's holding that the infringement was not "willful", and the denial of attorney fees under 35 U.S.C. § 285 and multiplied damages as authorized by 35 U.S.C. § 284. On the record before us actual damages have not been determined.

In the case at bar, the district court stated from the bench, at the close of the proceedings:

> I do not believe the infringement was willful. I think that the Kelley people, in the spirit of good competition, Rite-Hite came out with a product and they wanted to meet the product and they did the best they could and certainly did not intend to infringe on the patent, but I think the evidence compels me to find that they did.

Rite-Hite, 629 F.Supp. at 1045-46, 231 U.S.P.Q. at 161. The court subsequently discussed Rite-Hite's requests for multiple damages and attorney fees, and held that:

> Under 35 U.S.C. § 284, multiplied damages up to three times the amount found or assessed may be awarded by the Court. Kelley's activities here do not warrant such an award.

Id., at 1066, 231 U.S.P.Q. at 177. The court also held that:

> The activities of Kelley and the circumstances of this case are not sufficiently exceptional to prompt an award of attorneys' fees under 35 U.S.C. § 285.

Id.

Rite-Hite urges that the finding that Kelley's infringement was not willful is incompatible with the court's other evidentiary findings, and must be reversed as clearly erroneous, citing *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1577-79, 230 U.S.P.Q. 81, 89-91, *modified*, 793 F.2d 1565, 231 U.S.P.Q. 160 (Fed.Cir.1986), *cert. denied sub nom. Stora Kopparbergs Bergslags AB v. Crucible Inc.*, U.S. , 107 S.Ct. 882, 93 L.Ed.2d 836 (1987), and *CPG Products Corp. v. Pegasus Luggage, Inc.*, 776 F.2d 1007, 1015, 227 U.S.P.Q. 497, 502 (Fed.Cir.1985). Rite-Hite argues that "Kelley's conduct constituted copying and continued infringement after notice", and points to the absence from the record of any opinion of counsel to support Kelley's position that it believed its device did not infringe, although Kelley refers in its brief to such opinion. Rite-Hite asserts that the absence of the opinion was the result of Kelley attempting to claim its attorney-client privilege selectively, a position supported by the record. The district court resolved the issue by holding that no opinion of Kelley's counsel would be entered into the record.

The weight that may fairly be placed on the presence or absence of an exculpatory opinion of counsel has varied with the circumstances of each case, and has not been amenable to development of a rigorous rule. Although in appropriate circumstances this court has upheld the drawing of adverse inferences on the question of willfulness, *Kloster Speedsteel AB*, 793 F.2d at 1580, 230 U.S.P.Q.

at 91, we have observed that "[t]here is no *per se* rule that an opinion letter from patent counsel will necessarily preclude a finding of willful infringement, . . . nor is there a *per se* rule that the lack of such a letter necessarily requires a finding of willfulness." *Machinery Corp. of America v. Gullfiber AB*, 774 F.2d 467, 472, 227 U.S.P.Q. 368, 372 (Fed.Cir.1985).

The district court found that there was copying, stating that "Kelley learned about and made its vertically moving hook through its examination and adoption of the Rite-Hite MDL-55 device and the related literature", conduct the court described as "imitation of the vertically moving hook and the other elements of the '847 patent". *Rite-Hite*, 629 F.Supp. at 1051, 231 U.S.P.Q. at 166. However, the copy was not exact, as discussed in connection with the "third means". Kelley argued that although the court found its third means to be "equivalent", its intention was to "design around" the Rite-Hite claims. It is not clear whether this was the basis for the district court's conclusion that Kelley "did not intend to infringe", *id.*, at 1046, 231 U.S.P.Q. at 161, but it weighs on the side of that conclusion.

In a determination of willfulness and its consequences, the totality of circumstances are considered. *See King Instrument Corp.*, 767 F.2d at 867, 226 U.S.P.Q. at 412; *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390, 219 U.S.P.Q. 569, 576-77 (Fed.Cir. 1983). "Willfulness" in infringement, as in life, is not an all-or-nothing trait, but one of degree. It recognizes that infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of a patentee's legal rights. The role of a finding of "willfulness" in the law of infringement is partly as a deterrent — an economic deterrent to the tort of infringement — and partly as a basis for making economically whole one who has been wronged, for example by assessment of attorney fees under 35 U.S.C. § 285.

The term "willfulness" thus reflects a threshold of culpability in the act of infringement that, alone or with other considerations of

the particular case, contributes to the court's assessment of the consequences of patent infringement. These consequences include the assessments provided by statute for multiplied damages and/or attorney fees. Whether or not "willfulness" is found, the court has authority to consider the degree of culpability of the tortfeasor.

> The measure of damages, as indeed the assessment of attorney fees, provides an opportunity for the trial court to balance equitable concerns as it determines whether and how to recompense the successful litigant.

S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc., 781 F.2d 198, 201, 228 U.S.P.Q. 367, 369 (Fed.Cir.1986). Indeed, willfulness is not the only basis on which the court may find the case "exceptional" in the words of section 285, and on which the court may exercise its discretion. *See Standard Oil Co. v. American Cyanamid Co.*, 774 F.2d 448, 449, 227 U.S.P.Q. 293, 298 (Fed.Cir.1985) ("[o]ther exceptional circumstances [than inequitable conduct] include willful infringement, misconduct during litigation, vexatious or unjustified litigation, or a frivolous suit."); *Bayer Aktiengesellschaft v. Duphar International Research B.V.*, 738 F.2d 1237, 1242, 222 U.S.P.Q. 649, 652 (Fed.Cir.1984).

The factual question of whether the '847 patent was willfully infringed is reviewed under the clearly erroneous standard of Fed.R.Civ.P. 52(a). *See Underwater Devices*, 717 F.2d at 1389, 219 U.S.P.Q. at 576. To overturn a factual finding we must have a firm conviction that a mistake was committed by the district court. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 855, 102 S.Ct. 2182, 2189, 72 L.Ed.2d 606 (1982). Rite-Hite has failed to convince this court that the district court clearly erred in its finding that Kelley did not willfully infringe the claims of the '847 patent. Neither willfulness nor other exceptional circumstance having been established, there was no basis for the exercise of the district court's discretion with respect to attorney fees. *S.C. Johnson & Son, Inc.*, 781 F.2d at 200-01, 228 U.S.P.Q. at

368-69; *Reactive Metals and Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1582, 226 U.S.P.Q. 821, 824 (Fed.Cir.1985).

The district court's refusal to award Rite-Hite multiple damages under 35 U.S.C. § 284 will not be overturned absent a clear showing of abuse of discretion. See *Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540, 1547-48, 221 U.S.P.Q. 1, 8 (Fed.Cir.1984). A finding of willfulness does not always lead to the award of increased damages and attorney fees. A trial court's exercise of discretion in the circumstances before it is "informed by the court's familiarity with the matter in litigation and the interest of justice." *S.C. Johnson & Son, Inc.*, 781 F.2d at 201, 228 USPQ at 369. On this basis, we affirm the district court's rulings.

Fees on Appeal

Rite-Hite requests costs and attorney fees on this appeal, asserting that Kelley misrepresented the record, presented arguments as to the Taylor reference that were not before the district court, and misrepresented the district court's findings. Rite-Hite has not, however, sufficiently supported these charges, nor established that Rule 38 of the Federal Rules of Civil Procedure has been violated.

Although Kelley faced the appellate burden on the issues of validity and infringement, its request for appellate review was not frivolous and we do not consider this appeal to be in the category of "exceptional case" in terms of 35 U.S.C. § 285. The request for attorney fees is denied.

No costs are awarded on the appeal or cross-appeal.

AFFIRMED.

RITE-HITE CORPORATION, ACME DOCK SPECIALISTS, INC., ALLIED EQUIPMENT CORP., ANDERSON MATERIAL HANDLING CO., APPLIED HANDLING, INC., C & L EQUIPMENT CORPORATION, W.E. CARLSON CORPORATION, R.B. CURLIN, INC., EQUIPMENT SYSTEMS, INC., GREAT NORTHERN INDUSTRIAL PROD., INC., HOJ ENGINEERING & SALES CO., INC., INDY EQUIPMENT COMPANY, INC., JOHNSON EQUIPMENT CO., KELLER EQUIPMENT CO., INC., KING INDUSTRIAL EQUIPMENT, INC., LOADING DOCK EQUIPMENT CO., INC., MCCORMICK EQUIPMENT COMPANY, INC., METRO DOCK SPECIALISTS, INC., MID-ATLANTIC HANDLING SYSTEMS, INC., NIEHAUS INDUSTRIAL SALES, INC., NORTHWAY MATERIAL HANDLING CO., INC., RICE EQUIPMENT CO., STOKES EQUIPMENT COMPANY, INC., TIMBERS & ASSOCIATES, INC., TODD EQUIPMENT CORPORATION, U.S. MATERIALS HANDLING CORP., JOHNL & ASSOCIATES, INC., and STORDOX EQUIPMENT CO.,

Plaintiffs,

v.

KELLEY COMPANY, INC.,

Defendant

Civil Action No. 83-C-434

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF WISCONSIN

629 F. Supp. 1042; 231 U.S.P.Q. 161

March 5, 1986

DECISION AND ORDER

REYNOLDS, Chief U.S. District Judge

This is an action in patent infringement and unfair competition. Federal jurisdiction derives from 28 U.S.C. § 1338. The plaintiffs

Rite-Hite Corporation ("Rite-Hite") and its independent representatives seek a judgment that a truck restraining device manufactured and distributed by defendant Kelley Company, Inc. ("Kelley") infringes a patent owned by Rite-Hite, and that Kelley has competed unfairly by its use of a promotional film. Kelley has counterclaimed, alleging that Rite-Hite's patent is obvious in view of the prior art and is therefore void, and that Rite-Hite has competed unfairly.

The parties have agreed that the issues of liability and damages be tried separately. Rite-Hite also applied for preliminary injunctive relief with respect to its claim of unfair competition respecting Kelley's promotional film, and Kelley was enjoined from further use of unexpurgated versions of the film by the Court's order of March 16, 1984. Kelley was subject to this order at the time the issues of liability on the patent claims and Kelley's claims of unfair competition were tried to the Court.

The foregoing claims were tried to the Court between May 20 and May 29, 1985. At the close of the proceedings, I stated:

> I am persuaded that the evidence compels a decision that the patent is valid. It was not obvious. And I am sorry that I have to find that the patent was infringed.
>
> I do not believe the infringement was willful. I think that the Kelley people, in the spirit of good competition, Rite-Hite came out with a product, and they wanted to meet the product and they did the best they could and certainly did not intend to infringe on that patent, but I think the evidence compels me to find that they did.
>
> As far as the unfair competition issues involved, the use of the injunctive powers of the federal court I think should be used very sparingly. I don't think there is any irreparable injury on either side as far as this advertising. The film has not been used for a couple years, or at least since we had the hearing on preliminary injunction. I see no reason for the

Court in the exercise of its discretion and injunctive powers to be issuing — equity powers, issuing any more injunctions for either side.

The plaintiffs were then directed to file proposed findings of fact and conclusions of law, with a period of time allotted to defendant to comment thereon. The plaintiffs have filed their submission, the defendant has objected to certain provisions, and the plaintiffs have responded to the objections. Kelley has also moved for a stay of the injunction pending appeal, and Rite-Hite opposed this motion. I am persuaded that certain of the objections should be sustained, but that others would direct an outcome favoring the defendant and are not supported by the evidence. What follows, therefore, are essentially the findings of fact and conclusions of law proposed by plaintiffs with exceptions where a defense objection has been sustained by the Court in view of the evidence presented at trial.

I. FINDINGS OF FACT

A. *Parties and Jurisdiction*

1. Plaintiff Rite-Hite is a Wisconsin corporation having its principal place of business at Milwaukee, Wisconsin. The other plaintiffs are Rite-Hite's independent and exclusive sales representatives throughout the country.

2. Defendant Kelley is also a Wisconsin corporation with its principal place of business at Milwaukee, Wisconsin.

3. Rite-Hite and Kelley, together, are dominant factors in the dock leveler industry and have been keen competitors since Rite-Hite was founded in 1965.

4. This is an action for patent infringement arising under the patent laws of the United States, Title 35 U.S.C. The court has jurisdiction under 28 U.S.C. § 1338(a), and venue lies in this district under 28 U.S.C. § 1400(b).

5. There are also claims and counterclaims for unfair competition arising under the statutory and common laws of the State of Wisconsin. The court has jurisdiction under 28 U.S.C. § 1338(b).

B. ***History of the Case***

6. This action was initiated in early 1983, shortly after the patent-in-suit issued. Rite-Hite charged Kelley with infringement of U.S. Patent 4,373,847 (the '847 patent), as well as with unfair competition. On a preliminary injunction motion, the unfair competition count was heard by this Court on February 27 and 28, 1984. A decision was rendered in favor of Rite-Hite on March 16, 1984, granting a preliminary injunction enjoining use of a motion picture film which appeared to characterize unfairly Rite-Hite's Dok-Lok product.

7. Rite-Hite subsequently filed a motion for intervention on behalf of certain independent and exclusive Rite-Hite sales representatives, and the motion was granted. A trial was held before the Court in this action from May 20 through May 29, 1985. The main issues were (1) whether or not the defendant Kelley has infringed the '847 patent owned by the plaintiff Rite-Hite, and under which the other plaintiffs — Acme Dock Specialists, Inc., et al. — have certain exclusive territorial rights, and (2) whether Kelley could carry its burden that the '847 patent is invalid. The remaining issues relate to unfair competition and are mentioned further below.

C. ***Rite-Hite's Background***

8. Dock levelers, or automatic dockboards, are devices that automatically or semi-automatically bridge the gap between a truck and a dock so that forklift trucks can safely pass over that gap during the loading and unloading process. Dock levelers, in general, have replaced the loose plates that were often used when loading and unloading was done manually.

9. For years, dock leveler users and manufacturers as well as regulatory agencies recognized that a safety hazard existed because of the way that large trucks and trailers, for a variety of reasons, inadvertently separated from the dock during the loading or unloading process. If this happens a forklift can fall through the gap between the truck and dock onto the driveway below, and the results for the forklift truck and its operator can be catastrophic.

10. For instance, the forklift truck will almost always drop to the pavement if, when the truck pulls away, the forklift is parked in a position where it is supported in part by the dockboard and in part by the truck. In this situation, there is nothing at all to keep the forklift and its operator from falling through the gap between the truck and the dock.

11. The forklift truck will also be exposed to this type of accident if it is moving either into or out of the truck or trailer at the time the truck separates from the dock. In such situations, the driver may not notice the gap and drive the forklift off the truck bed, especially if he is backing up out of the truck. Another hazard exists from sudden accelerations and decelerations of a loaded forklift inside a truck. In this situation, a considerable force tending to push the truck away from the dock can produce disaster. This phenomenon is sometimes referred to by Kelley and Rite-Hite as "trailer creep."

12. Aware of these life-threatening problems, but lacking a real solution in the late 1960's and early 1970's, Rite-Hite provided its only answer at that time, its Total Dock Safety (T.D.S.) Package (PTX-3)[1], which included wheel chocks, a large warning sign, and a "Dock Safety Rules" sign. But these were not an adequate remedy for the problem. Kelley worked on a somewhat similar and equally ineffective "communication" system.

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[1] References to plaintiffs' trial exhibits will be identified as "PTX__" and defendant's trial exhibits as "DTX__."

13. In yet another situation, the forklift driver can suffer severe or fatal injuries even if, when the truck inadvertently separates from the dock, the forklift is parked in a stationary position on the dockboard and is fully supported by the dockboard. This is because, in normal operation, the outward or free end of the dockboard rests on the bed of the truck. When the vehicle pulls away, the end of the dockboard lip that was supported by the truck tends to drop. This, in turn, tends to tip the whole dockboard downwards and pitch the forklift, its operator, and/or its load onto the driveway.

14. To eliminate this latter hazard, dock leveler manufacturers many years ago designed safety devices into their dock levelers to limit the extent to which the dockboard could tip downwards in the event of the inadvertent separation of the truck from the dock. Kelley developed its "Panic Stop," which was patented in the middle 1960's (DTX-183-8). This device had a ratchet that was engaged to prevent the outward end of the dockboard from moving downward if the dockboard started to move down abnormally fast. This prevented the further downward progress of the board. Rite-Hite also developed its patented "Safety Legs" in the early 1970's which, when not needed, could be pulled away, but when in normal operation, limited the extent to which the dockboard would descend in this situation. Neither of these devices provided a complete solution to the problem, but they clearly recognized the very real hazard and need. In its 1966 patent (DTX-183-8), Kelley acknowledged that dock accidents could result in death and added that the problem of accidental dropping of the ramp "has been a thorn in the side of mechanical dockboards for as long as such boards have been made" (DTX-183-8, col. 2, lines 40-43).

15. The question of whether the dockboard safety devices described above could be sold as "options" or whether they should always be made mandatory features on all dock levelers was the subject of disputes between dock equipment manufacturers.

Rite-Hite sold its devices as standard equipment. Kelley's devices were sold as options.

16. A meeting of American National Standards Institute (ANSI) Safety Committee MH14 was held in October 1975 to consider, among other things, this question of whether "safety legs" on dock levelers should be options or standard. During the course of this meeting, Rite-Hite's founder and representative at the meeting, Arthur K. White, became convinced that these safety stop devices then being offered were an approach to only part of the problem. He concluded that what was really needed was something to restrain the vehicle physically so that it could never move away from the dock inadvertently. No effective device was offered on the market at that time. Wheel chocks were ineffective. Warning and "communication" systems were likewise ineffective.

D. ***The Development of Vehicle Restraints at Rite-Hite***

17. The '847 patent claims one of a series of basic inventions that Rite-Hite made during a product development program that lasted for a number of years. After Rite-Hite introduced its commercial Dok-Lok vehicle restraints, the rest of the industry, including Kelley, were skeptics or copyists.

18. Rite-Hite's development program was long and arduous. Rite-Hite's first vehicle restraint, which was developed by 1977 but never marketed, involved a mechanism mounted on a driveway in front of a loading dock. The "engaging mechanism" was disposed at an angle relative to the driveway and engaged a part of the truck. Another device developed shortly thereafter consisted of a pipe clamp type of latch which held a flexible steel cable and industrial hook that could be attached to any holes or crevices in the trailer to hold it in place (PTX-16). The next effort involved a flexible cable and hydraulic holding device (PTX-124). Both of these devices were mounted on the dock platform. These devices all performed the same function that they were designed to perform, i.e., they prevented the truck from inadvertently separating from the dock.

Rite-Hite filed a patent application in October of 1977 for the Hydraulic Securing Device (flexible cable) that ultimately issued as U.S. Patent 4,146,888 on March 27, 1979 (PTX-1b). A physical example of this device was demonstrated at the trial (PTX-16).

19. But these early vehicle restraints had drawbacks. They were relatively expensive, and they were relatively difficult to use. They were also obtrusive and vulnerable to damage because of their location either on the driveway, where they could be hit by trucks or snowplows, or on the top surface of the loading dock, where they could obstruct traffic or be vulnerable to forklift trucks moving about the dock.

20. By the spring of 1978, Rite-Hite had developed a vehicle restraint mounted on the vertical face of the dock where it was less of an obstruction and less likely to be damaged. This device included a "pivoted hook" member. The hook had a shank pivoted to the wall and a right angle hook to engage a vehicle. The hook member, when not used, was stored in a downwardly rotated position with the shank pendent along the wall. As the pivoted hook members refined over several generations, the hook was operable either manually (by a driver standing on the driveway) or automatically (with the power of an activated dock leveler). When used, it was pivoted upwardly to an operative mode to engage the truck via the truck's ICC bar. This device represented a major advance in the art of vehicle restraints. Accordingly, Rite-Hite filed a patent application which issued as U.S. Patent 4,208,161 (PTX-1d). Physical exhibits of these devices were also demonstrated at the trial (PTX-17 and PTX-18).

21. But these devices with a pivoted hook also had drawbacks. The main drawback was the fact that they were limited in terms of the variations in ICC bars that could be accommodated. ICC bars are bars that the Interstate Commerce Commission requires on most trucks to prevent low automobiles from running underneath them in the event of rear-end collisions. To learn about the

variations in ICC bars, Rite-Hite conducted surveys of thousands of trailers and obtained data from trailer manufacturers. These surveys indicated that ICC bars were present on all over-the-road trailers and also provided Rite-Hite with extensive knowledge about the differences that existed between the various ICC bars in terms of shape and height from the ground. Rite-Hite found that the ICC bar height varied as much as 15 inches from the legal maximum of 30 inches above the ground, and this variation presented serious problems for Rite-Hite's early pre-1978 inventive efforts. The surveys also showed that "over-the-road" trailers had a suspension "float" of 2 inches to 2½ inches. Float was accommodated in one of the earlier generations (PTX-18) by permitting the hook to rotate against the resistance of a spring.

22. By late 1978, an adjustable trapezoidal carriage was developed and added, and the pivoted hook was then mounted in the carriage. The carriage was biased upward with springs stored in the dock leveler to hold the carriage with the enclosed hook above the ground when it was not in operation. The carriage was actuated by movement of the ICC bar so that the carriage moved down against the springs as the truck backed into the dock. The downward movement of the carriage positioned the hook so that it was always in a good position to be activated and pivoted up to engage the ICC bar. With this device, Rite-Hite found it could accommodate the vast bulk of the ICC bars which its research had indicated would be encountered. The carriage also accommodated "float." This device was another substantial advancement in the art of restraining trucks, and Rite-Hite filed a patent application resulting in U.S. Patent 4,282,621 (the '621 patent) (PTX-6h). A physical exhibit of this device was demonstrated at trial (PTX-19).

23. In 1979, Rite-Hite developed some improvements which further refined this "pivoted hook" restraint. Among other things, the springs are incorporated into opposite sides of the trapezoidal carriage along which the carriage slides so that the restraint can operate independently of any dock leveler, and rotation of the hook

was motorized. It is this version of a restraint with a pivoted hook that was ultimately commercialized in the spring of 1980 as the Model ADL-100 Dok-Lok vehicle restraint. U.S. Patent 4,264,259 (the '259 Patent) (PTX-6j), disclosing and claiming this device, issued on April 28, 1981. This device was also demonstrated at trial (PTX-131).

E. *U.S. Patent 4,373,847*

24. Rite-Hite's development program continued after the introduction of the Model ADL-100. One of the program's objectives was cost reduction and simplification. In order to achieve that objective, a vehicle restraint that was simple, more rugged and inexpensive, and that could be manually operated, if desired, was sought.

25. In the spring of 1981, about a year after the introduction of the ADL-100, Steven Hipp and Norbert Hahn developed the first of Rite-Hite's MDL vehicle restraints. This is the system of the '847 patent and the Kelley Truk Stop. The '847 patent is entitled RELEASABLE LOCKING DEVICE, was filed in the U.S. Patent and Trademark Office on May 4, 1981, and issued on February 15, 1983.

26. The '847 patent is directed to a new approach to a vehicle locking device or vehicle restraint for securing a parked vehicle to an adjacent stationary upright structure such as a dockwall. The device of the '847 patent has a frame vertically extending up the dockwall and secured to the exposed surface of the wall. It has a hook assembly that has a follower mounted in the frame for vertical movement between an upper operative position, where it will secure the vehicle against the wall, and a lower inoperative position free of the vehicle so that the vehicle can be driven away from the wall. The hook assembly has a horizontal shank portion extending outwardly from the follower and a vertical hook portion. The device of the '847 patent further has a retaining means to

retain the hook in its upper operative position but to selectively permit the hook to be released to its lower inoperative position.

27. In addition to the above-described basic structure, the device of the '847 patent includes a slide as a part of the fixed wall-mounted frame, which is urged upwardly by a biasing force and has a first part of the retaining means secured to it. A coacting complimental second part of the retaining means is carried by the hook and engages the first part to prevent accidental movement of the hook from an operative to an inoperative position. Thereby, any loading of the vehicle, such as upon the entry of a forklift truck, will cause the hook, the slide, and the two parts of the retaining means to move together downwardly against the biasing force of the spring to provide downward float. This is a desirable feature, for without it, the device could become "jammed" by the weight of the truck pushing down on the hook assembly engaged with the ICC bar. This downward float is made possible by heavy duty springs which hold the slide so that the slide and the first part of the retaining means are upwardly biased even when not restraining a vehicle. As a result, the retaining means and the hook element can move, as a unit, several inches vertically downward when subjected to the forces of a truck being loaded.

28. While, in the preferred embodiment described in the '847 patent, the first part of the retaining means is a ratchet and the second part is a pawl, the description in column 2 starting at line 2 makes it very clear that the patent is not limited to this particular embodiment. At column 3, line 5, the description makes it clear that other equivalent devices, and in particular elongated vertically extending devices, could be employed instead of a ratchet. At column 4, lines 9-10, the description makes it equally clear that other equivalent devices could be substituted for the pawl. From the testimony of both experts, the Patent Office prosecution history, and the other evidence, it is clear that the rack and pinion of Kelley and the threaded shaft of the Taylor, et al., reference,

cited by the Examiner, are the equivalent of the ratchet and pawl shown in the particular embodiment described in the '847 patent.

29. Recognizing the advancement in the art of vehicle restraints represented by the MDL Dock-Lok, Rite-Hite sought and obtained the '847 patent disclosing and claiming this system. A physical MDL truck restraint constructed in accordance with the described embodiment of the '847 patent (PTX-20) was demonstrated at trial and was also compared to the Model MDL-55 (PTX-123) and the Kelley Truk Stop (PTX-21) systems. The claimed elements in Claims 1, 2, 3, 8, 12, and 13 of the '847 patent are found in the MDL, the MDL-55, and the Kelley Truk Stop. Mr. Kjell Erlandsson, who is Kelley's Vice President of Engineering and who testified as an expert witness for Kelley at trial, questioned whether the word "releasably" was apt in finding that the Kelley rack and pinion releasably retained the hook in its operative position. The term is apt as indicated by the use of the term "Release" on the Truck Stop control box for the purpose of lowering the hook to release it from engagement with a vehicle.

30. The value of the invention of the model MDL and '847 patent is not limited to simplicity of construction or the possibility of manual operation. The vertically traveling hook assembly is a new departure from and an improvement over previous "pivoted hook" designs in part because the capture area available to engage an ICC bar by the hook was changed to a rectangular area from the smaller semi-circular area provided by the pivoting hook, resulting in a better range of engagement. Also, the vertically travelling hook assembly has a smaller sweep or clearance area moving into the operating position to reduce the chance of interference with things other than the ICC bar. In addition, the pivoting hook has a tendency to rotate away, whereas there is no such concern with the vertically moving hook assembly. Mr. Erlandsson made these observations at his deposition and continued to acknowledge these advantages at the trial. In addition, the Model MDL can be used either with or without a power source.

F. *The '847 Patent Was Commercialized As the MDL-55*

31. Rite-Hite had successfully tested production prototypes, was completing production drawings and obtaining quotes on large production quantities of parts when Messrs. Hip, Hahn, and Swessel in mid-1981 came up with an improved version, the MDL-55. Although the basic device shown in the '847 patent had downward float, this unit did not have what people in the industry today call "upward" float, i.e., the hook is not initially springbiased up against the ICC bar. At the trial, the evidence established that normal "over-the-road" trucks deflect between about 1 inch and 2½ inches, so that in most situations, the vertical hook portion of the hook assembly shown in the '847 patent would accommodate the upward float of the ICC bars. The vertical hook portion of the hook assembly could also, of course, have been made longer to provide additional compensation for the "upward float" of the ICC bar.

32. With the improvement of the MDL-55, if the ICC bar rises as weight is taken off the truck, an initial bias is provided that can raise the vertically movable hook. This increased the versatility of the vertically moving hook. The improved restraint handles not only "over-the-road" trailers but "city" trucks (a small percentage of the vehicles to be restrained), which generally have weaker springs and, thus, deflect more than the "over-the-road" trailers. This improved MDL device, the Model MDL-55 vehicle restraint, is disclosed and claimed in U.S. Patent 4,443,150 (PTX-1i). This model was also demonstrated at the trial (PTX-123).

33. Kelley did not dispute that this improved model MDL-55 device uses the '847 patent and has been commercialized by Rite-Hite and is a current successful product of Rite-Hite. Over 1,800 of the MDL-55's have been sold, generating sales in the millions of dollars.

34. Similarly, the Kelley Truk Stop uses the '847 patent, but by using a motor and rack and pinion instead of the ratchet and pawl

of the specific embodiment of the '847 patent, Kelley obtains the same advantages as the MDL-55's initial upward float. Kelley's Truk-Stop is additional evidence of the commercial success of the invention of the '847 patent. While one can never be certain of the precise causal relationship of commercial success, nevertheless in this case, it appears from all of the evidence that the invention of the '847 patent was a very significant factor.

G. ***Kelley's Development of Its "Truk Stop" Device***

35. The facts established at trial indicate that Kelley learned about and made its vertically moving hook through its examination and adoption of the Rite-Hite MDL-55 device and the related literature.

36. Kelley's imitation of the vertically moving hook and the other elements of the '847 patent is indicative of the value, the importance, and the unobviousness of the invention claimed in the '847 patent. Furthermore, the fact that Kelley has procured U.S. Patent 4,488,325 (DTX-212), on aspects of its vehicle restraint, does not negate the infringement of Rite-Hite's '847 patent. The very foundation of the patent system contemplates that users of a basic patent will make improvements with time. Both Kelley and Rite-Hite did so here, but if anything, that enhances the dignity of the '847 patent.

37. Kelley's first knowledge of a workable vehicle restraint came with the introduction of the ADL-100 Dok-Lok sold by Rite-Hite in April of 1980. In June of 1980, Kelley's response to this first device of Rite-Hite was to propose various communications devices (PTX-64). One year later, in June of 1981, Kelley was still working on communications-type devices (PTX-65).

38. In the late summer of 1981, about the time of the introduction of Rite-Hite's Model MDL-55, the Occupational Safety and Health Administration ("OSHA") issued an instruction

(PTX-30), the purpose of which was to allow the use of vehicle restraints without wheel chocks.

39. At about this same time, Kelley's sales representatives began expressing increased concerns to Kelley (which was still without a vehicle restraint in its product line) that sales of Rite-Hite's vehicle restraints could be coupled with sales of Rite-Hite dock levelers which would otherwise be sold by Kelley (PTX-36). This was a double injury in the market place. As a result, the representatives found that their ability to sell dock equipment was hampered by the presence of Rite-Hite vehicle restraints.

40. Kelley had no plans for a physical restraint at the time of the OSHA instruction. Rather, Kelley's focus was still on communication. Knowing of the long-standing problem, Kelley had failed to recognize the solution.

41. On Friday, November 13, 1981, John Hogseth (Kelley's Vice President of Marketing) sent a memo to Joseph Driear (Kelley's Director of Engineering) formally requesting Mr. Driear to begin work immediately on a vehicle restraint to compete against the Rite-Hite Dok-Lok and to cost less than $1,000 (PTX-32). During the course of this program, Kelley personnel referred to its vehicle restraint as "Kelley's version of the Dok-Lok" (PTX-36).

42. On the following Monday, November 16, 1981, Hogseth's memo (PTX-32) was marked "received" by "Engineering," and a memo at the bottom in Mr. Driear's handwriting of the same date indicates that Mr. Driear would comply with Mr. Hogseth's requests but that the following were initially required:

(a) Engineering needed a copy of the OSHA regulations that sanction the use of vehicle restraints (this was done four days later as noted below);

(b) The formal "request" for the product development program should be submitted (there is evidence that this was, apparently, never done);

(c) A copy of the "complete" Rite-Hite literature should be sent to Engineering (the operating instruction sheet for the MDL-55 had been received by Engineering on September 17, 1981, as an attachment to a memorandum from Hogseth (PTX-31), but other literature, such as an ADL-100 booklet, was not provided until later); and

(d) A sample of the Rite-Hite product should be made available to Engineering (this was done on December 30, 1981, as described below).

43. On the next day, Mr. Driear carefully reviewed copies of certain Rite-Hite patents, including the patent claiming the Model ADL-100 restraint (with a pivoting hook), and made notes regarding the claims of the patents (PTX-33). His notes all portray, among other things, the "pivoted hook" configuration shown in the Rite-Hite patents.

44. About that time, Kelley's patent attorney, Glenn Starke, visited Mr. Driear, and they discussed the Rite-Hite patents. Although the Model MDL-55 devices were marked "patent pending" (PTX-93), no search or study was made or opinion given on what patents might issue on the MDL-55.

45. Also, at about this time, the vehicle restraint development project of Kelley was assigned the project number "915" and was assigned to David Bennett, a young engineer working under Mr. Driear's supervision. Mr. Bennett is now deceased. Kelley continued to work on communications-type systems (PTX-65).

46. A date stamp on the OSHA instruction indicates that it was received by Kelley's engineering department on Friday, November 20, 1981 (PTX-30).

47. On December 29, 1981, Mr. Bennett wrote a memo in longhand setting forth the "work schedule" for the "trailer anchoring device" (PTX-38). The memo sets forth a number of tasks which indicate that little, if any, progress had been made in the design work up to this point, and a high priority had been given to obtaining additional information on Rite-Hite's product. A memo and monthly report dated January 14, 1982, from Mr. Driear to Mr. Kuhns (PTX-58), also generally summarizes the work done on project 915 during December of 1981 as follows: "Conceptual work on truck/trailer anchoring device proceeded slowly due to higher priority projects." Thus, at the end of 1981, Kelley was still without a defined concept or significant development of vehicle restraint to compete with Rite-Hite.

48. On December 30, 1981, the previously ordered Model MDL-55 Dok-Lok vehicle restraint was finally installed at Kelley's Tuf-Seal subsidiary (PTX-129). An hour after the installer left, the Kelley engineers, including Mr. Driear, began inspecting, disassembling, measuring, operating, and photographing it. Polaroid photographs of the device were taken then and later placed on file in Kelley's engineering division (PTX-22 through PTX-29). These photographs, discussed at trial, show Mr. Driear at the site of the installation (PTX-26), the disassembled vehicle restraint as well as with a tape measure (PTX-24 and PTX-29) next to certain parts. One of these photographs shows the serial number tag on the device (PTX-26). At that time these tags indicated that patents were pending on the device (PTX-93).

49. Messrs. Bennett and Driear knew, or had available to them as of the end of December 1981, everything that was possible for them to know about the construction of the Rite-Hite Model MDL-55. They knew the fact that it had a vertical support, a channel in the support for a slide, a hook mounted for vertical movement in the support, and a ratchet and pawl assembly that operates by relative movement to position the hook on the slide,

retain it in the position, and permit downward float of the slide, hook, and retaining means as a unit against a biasing force.

50. On the next day, Robert Kuhns sent a memo (PTX-55) to Mr. Driear and a copy of a publication draft of a Model ADL Service Bulletin that Kelley had obtained on May 5, 1980, stating:

> With this (I think George Zahorik has the original) and the Tuf-Seal Mechanical [MDL Dok-Lok], we should be able to move.

51. By January 12, 1982, the first sketches that have been found of Kelley's device, which embodied all of the features of Rite-Hite's device described above and claimed in the '847 patent claims 1, 2, 3, 8, 12, and 13, were complete. These first sketches show the product that was eventually commercialized as the Truk Stop.

52. At the trial, Kelley claimed that these January sketches were not the earliest sketches and that they had previous sketches and work. However, Kelley was unable to produce any earlier sketches showing a device similar in any way to its Truk Stop, notwithstanding numerous requests made by Rite-Hite's counsel before and during the trial. In fact, on January 15, 1982 (PTX-57), these sketches were signed and witnessed by Kuhns and Driear. Furthermore, the evidence established at trial indicates that Kelley's practice is to have the first description or sketch of an invention witnessed so as to corroborate the date and provide credible evidence of the date of the invention. Thus, based upon this evidence, the earliest sketches of the Truk Stop device were not made by Kelley's engineers until about two weeks after Kelley's same engineers viewed, operated, and disassembled Rite-Hite's MDL-55.

53. By February 23, 1982, the first prototype of Kelley's Truk Stop restraint was complete, operating, and ready for testing. Photographs of this prototype (PTX-43) were taken by Kelley specifically for the purpose of establishing this date.

54. On March 1, 1982, the design of the Truk Stop product was released at a "show and tell" demonstration, and by about July 1, 1982, the product was available for introduction to the representatives and production, shortly after the date projected by Kelley in the fall of 1981 (PTX-32).

55. The evidence at trial, both through the testimony of Kelley's personnel and its documentation, shows that Kelley had given a great deal of thought to the question of a product that would compete with Rite-Hite's vehicle restraint, and that Kelley had made little progress in its own efforts to come up with a competing device until after its engineers had the benefit of the MDL-55 Dok-Lok brochures and inspected, tested, and dismantled an actual MDL-55.

56. The testimony at trial of Robert Engleking, a Kelley sales representative in Minneapolis in 1981 and 1982, was uncontroverted. That evidence showed the commercial impact of the Rite-Hite Dok-Lok restraints, the need for such device, and the response of Kelley. Mr. Kuhns, President of Kelley, during a private showing of the new Truk Stop in the spring of 1982, demonstrated it side by side with Rite-Hite MDL-55 and explained the relationship between them to Mr. Engleking.

H. *Kelley Has Failed to Prove That the '847 Patent Is Invalid*

57. Kelley has asserted invalidity of the claims in suit of the '847 patent, stating that the claimed combination is obvious and shown in the prior art. The Court finds that Kelley has failed to carry forth its burden that the patent is invalid and holds that the claims in suit are not invalid.

a. *The Claimed Invention Is Nonobvious*

58. Kelley has alleged that the asserted claims are obvious over the prior art. On this issue the Court has (1) determined the scope and content of the prior art, (2) ascertained the difference between

the prior art and subject matter claim, (3) determined the level of ordinary skill in the art, and (4) given consideration to the objective evidence of nonobviousness such as long-felt need, commercial success, failure of others, copying, and unexpected results. Based upon the evidence coupled with an analysis of this indicia, the Court finds that the subject matter of claims 1, 2, 3, 8, 12 and 13 are nonobvious.

59. Kelley set forth a number of prior art references during the trial. Many of these references were before the Examiner and some of them were not. With respect to the references not before the Examiner, the Court finds that none of these are more pertinent than the art before the Examiner. Along these lines, the Court rejects Mr. Erlandsson's testimony that U.S. Patent 4,282,621 (PTX-1-g), which issued to Anthony, et al., for a Releaseable Locking Device and which was not before the Examiner, is more pertinent than U.S. Patent 4,264,259 (PTX-1-e), issued to Mr. Hipp for a Releaseable Locking Device; U.S. Patent 4,267,748 (PTX-1f), issued to Grunewald, et al., for a Releasable Locking Mechanism; and U.S. Patent 4,208,161 (PTX-1d), issued to Mr. Hipp, et al., for Device For Releasably Securing A Vehicle To An Adjacent Support, all of which were cited by the Examiner. All of these patents, discussed earlier, resulted from the Rite-Hite vehicle restraint program. The '621 patent teaches no more than the '259, '748, or '161 patents, which were before the Examiner.

60. The plethora of references set forth by Kelley in general fall into two categories. The first category contains ratchet and pawl references shown in a montage (DTX-202). The reliance on these references is based upon Kelley's misapprehension of the claims as being specific to a ratchet and pawl as an element of the claimed combination. None of the claims is limited to a ratchet and pawl, and Rite-Hite never contended it had invented a ratchet and pawl. Kelley put in no evidence that any of the ratchet and pawl references suggested use of that element in the claimed combination to secure a parked vehicle against a stationary upright

structure such as a dock wall. Thus, none of the prior art items in DTX-202 is of significance in the issue of obviousness.

61. The second category of prior art is that shown in DTX-201. These references all relate to some type of vehicle restraint, but none shows the claimed combination of the '847 patent. The closest references to the asserted '847 patent claims are the work of Rite-Hite's development team. None of those references suggest going to the system of the '847 claims with a horizontal hook shank mounted to a follower to a vertical support or with a biased slide and retaining means for the vertically movable hook. Nor do those references suggest a slide, a vertically movable hook in the slide and retaining means to support the hook fixed in the slide, all vertically movable as a unit to provide float.

62. The examiner had the best of these references before him; that is, Rite-Hite's '259, '161, and '748 patents showing pivotally mounted hooks on a vertical wall. The Examiner was correct in finding the '847 claims unobvious and patentable thereover. While each single element of the claims may have precedent in the prior art, as is true in most mechanical patents, the combination of elements set forth in the claims of the '847 patent asserted here was novel. It proved a workable, efficient, and inexpensive solution to a very long-felt need in the dock equipment industry and was not suggested in any reference. Kelley was well aware of the serious safety hazard, including injuries and even deaths, from inadvertent and accidental withdrawals of trucks from loading docks and the need for a practical solution since at least as early as 1966 when they sought patent protection on what they called the Panic Stop (DTX-183-8).

63. There was some disagreement between the parties at the trial about t[illegible] level of ordinary skill in the art in the early 1980's. The Court adopts the definition of plaintiffs' technical expert witness Professor John Strait who stated that the level of skill is relatively low, and that a person with several years of design experience in the steel and machinery art would typify the ordinary

skill. A few of the workers in the art, usually managers, might have an engineering degree. With this definition, the Court finds that the claimed combination would not have been obvious to one skilled in the art at the time of the invention.

64. Even if this Court adopts Kelley's definition of the higher level of skill (a qualified engineer) suggested by Kelley's expert witness, Mr. Erlandsson, this Court finds that this invention would have been nonobvious.

65. This finding of nonobviousness is further supported in light of the objective evidence of unobviousness. For example, the '847 patent provided a solution to the long-felt need that escaped the industry, including Kelley, until after Hipp and Hahn made the invention and Rite-Hite began to sell the invention of the '847 patent as the Model MDL-55 vehicle restraint. Before that time, Kelley concentrated its efforts on communications devices and not physical restraints, and even when charged with coming up with physical restraints, it was unable to do so.

66. A further indicium of nonobviousness is copying or imitation by competitors. In this case, Kelley was not able to come up with a solution or a construction for a physical restraint on its own prior to receiving the Rite-Hite MDL-55 literature in the late summer of 1981 and having the MDL-55 installed on the dock of its Tuf-Seal subsidiary on December 30, 1981. Kelley's officers and engineers, within hours after the Rite-Hite installation was completed at Tuf-Seal, were inspecting, operating, photographing, disassembling, and measuring the Rite-Hite MDL-55. Within a few weeks thereafter, the Kelley documentary records show the first evidence of the development of the truck restraint that became the Truk Stop, including a witnessed drawing (PTX 57) and other subsequent indications of the construction of the first prototype, which was made in February of 1982 (PTX 43). Such evidence further supports the argument of unobviousness.

67. As mentioned earlier, while it is never possible to relate commercial success to one specific cause, the invention encompassed by the '847 patent is one significant cause that has resulted in the commercial success of both the MDL-55 of Rite-Hite and the Kelley Truk Stop.

68. Kelley claims that the commercial Rite-Hite product, the MDL-55, also incorporated an improvement over the basic disclosure of the '847 patent. It is, of course, axiomatic in the patent law that one cannot avoid infringement of a basic patent, such as the '847 patent, by making certain improvements on the basic structure, such as the addition of a motor drive or means for providing increased float as compared to the structure of the '847 patent. Similarly, the fact that Rite-Hite's commercial product represents an improvement that came after the basic invention of the '847 patent in no way detracts from the commercial success of the patented structure.

b. *Kelley Has Failed to Prove Anticipation*

69. Kelley has also alleged that the asserted claims are shown by the prior art, although its evidence was vague on whether it alleged an anticipation under any section of 35 U.S.C. § 102. The Court finds that Kelley has failed to carry forth its burden on this allegation.

70. In particular, at the trial, Kelley's technical expert, Mr. Erlandsson, stated that prior art, such as U.S. Patent 621,858 issued to Schwarz for Easel and a 1977 Ford Automobile Jack and operating manual, show the claimed combination in the asserted claims. Yet these prior art devices do not relate to the patented invention. They are far afield and offer no suggestion of an apparatus for restraining a parked vehicle against a stationary upright structure. No single reference introduced by Kelley anticipates the claimed invention. Even if these devices include each of the claimed mechanical elements, their structure, interrelationship, application, and operation vary so drastically and distinctly

from the claimed invention that it cannot be found that these devices show the claimed combination.

I. ***Kelley's Infringement of the '847 Patent***

71. Infringement of Claims 1, 2, 3, 8, 12, and 13 of the '847 patent by the Kelley vehicle restraint marketed under the trademark "Truk Stop" was proven at trial. To facilitate reading these claims, they were broken down at trial and compared with features and elements of the Kelley device. Rite-Hite's technical expert witness, Professor Strait, explained the relationship at the trial with the assistance of colored charts of the '847 patent drawings (PTX-10) and Kelley's device (PTX-14) as well as demonstrations of various models. In particular, Professor Strait showed how the asserted claims of the '847 patent read on the drawings of the '847 patent (PTX-10 and PTX-10-A), the Model MDL (PTX-19), the Model MDL-55 (PTX-123) (the improved Model MDL, which has met with commercial success in the marketplace through sales of over 1,800 units), and Kelley's Truk Stop device (PTX-21).

72. Claims 1, 2, 3, 8, 12, and 13 of the '847 patent, as asserted against Kelley's product and in the form as relied upon by the plaintiffs at trial in PTX 11, 12, and 13, are as follows:

CLAIM 1

A releasable locking device for securing a parked vehicle to an adjacent relatively stationary upright structure, said device comprising

(a) a first means mountable on an exposed surface of the structure,

(b) a second means mounted on said first means for substantially vertical movement relative thereto between operative and inoperative modes,

(c) the location of said second means when in an inoperative mode being a predetermined distance beneath the location of said second means when in an operative mode and in a non-contacting relation with the vehicle,

(d) and third means for releasably retaining said second means in an operative mode,

(e) said second means including a first section projecting outwardly a predetermined distance from said first means and the exposed surface of the structure, one end of said first section being mounted on said first means for selective independent movement relative thereto along a predetermined substantially vertical path, and a second section extending angularly upwardly from said first section and being spaced outwardly a substantially fixed distance from said first means and the exposed surface of the structure,

(f) said second means, when in an operative mode, being adapted to interlockingly engage a portion of the parked vehicle disposed intermediate to second section and said first means,

(g) said second means, when in an inoperative mode, being adapted to be in a lowered nonlocking relation with the parked vehicle.

CLAIM 2

The device of claim 1 wherein

(a) the first means includes a first member fixedly mountable on the structure exposed surface and a second member slidably mounted on said first member for limited independent substantially vertical relative movement,

(b) said second member being upwardly biased to assume a normal elevated rest position with respect to said first member,

(c) said second member and said second and third means being movable as a unit downwardly from said normal rest position

only when a depressive external force exerted on said second means, while the latter is retained in an operative mode, exceeds the biasing force applied to said second member.

CLAIM 3

The device of claim 2 wherein

(a) the third means includes a first element carried by said second means and coacting with a complemental second element carried by the second member of said first means to prevent movement of said second means from an operative mode to an inoperative mode.

CLAIM 8

The device of claim 1 wherein the third means automatically retains the second means in an operative mode.

CLAIM 12

The device of claim 1 wherein

(a) the first means includes elongated upright guide means,

(b) and the first section of the second means includes guide-engaging elements carried on the one end of said first section and continuously maintaining said first section in an outwardly projecting relation with respect to said first means.

CLAIM 13

A releasable locking device for securing a parked vehicle to an adjacent upright structure, said device comprising

(a) a first means having a first member fixedly mountable on the structure and a second member mounted on said first member for limited substantially vertical relative movement, said second member being upwardly biased to assume a normal rest position,

(b) second means mounted on said first means for substantially vertical movement relative thereto between operative and inoperative modes,

(c) the location of said second means when in an inoperative mode being a predetermined distance beneath the location of said second means when in an operative mode,

(d) and third means for releasably retaining said second means in an operative mode,

(e) said third means having a first element carried by the second member of said first means, and a complemental second element carried by said second means, said first and second elements coacting with one another to prevent movement of said second means from an operative mode to an inoperative mode,

(f) said second means including a first section projecting outwardly from said first means, one end of said first section being connected to said first means and being guided thereby for selective relative movement in a predetermined substantially vertical path, and a second section extending angularly upwardly from said first section and being spaced outwardly from said first means,

(g) said second means, when in an operative mode, being adapted to interlockingly engage a portion of the parked vehicle disposed intermediate the second section and said first means,

(h) said second means, when in an inoperative mode, being adapted to be in a nonlocking relation with the parked vehicle,

(i) the second member of said first means being movable downwardly from the normal rest position only when a depressive external force exerted on said second means, while the latter is retained in an operative mode, exceeds the biasing force applied to said second member.

73. Upon hearing all of the evidence presented at the trial, including the expert testimony of both Professor Strait (Rite-Hite's technical expert) and Mr. Erlandsson (Kelley's Vice President of Engineering and its technical expert), the Court finds that Claims 1, 2, 3, 8, 12, and 13 of the '847 patent are infringed by Kelley's device.

74. In particular, Professor Strait showed that the Kelley device, which is directed to a releasable locking device or vehicle restraint for securing a parked vehicle to an adjacent upright structure, such as a dockwall, has a frame vertically extending up the dockwall and secured to the exposed surface of the wall, a hook assembly slidably mounted in that frame for vertical movement between an upper operative position where it will secure the vehicle against the wall and a lower inoperative position free of the vehicle so that the vehicle can be driven away from the wall. The hook assembly of the Kelley device also has a horizontal shank portion, a vertical hook portion, and a follower that moves in the frame between the upper operative and lower inoperative positions. The Kelley device also has a means in the form of a rack and pinion which operates with a reversible motor to retain the hook in its upper operative position but to selectively permit the hook to be released to its inoperative position.

75. In addition, at the trial Professor Strait showed that the Truk Stop unit also includes a slide as a part of the fixed frame, which is urged upwardly by a biasing force in the form of a gas spring and has one part of the locking means, namely, the rack secured to it. A coacting complemental part of the retaining means, the pinion, is carried by the hook and engaged the rack to prevent accidental movement of the hook from an operative to an inoperative position. As a result, the Truk Stop will move downward when subject to the force of a truck being loaded providing downward "float." Upward float can also be accommodated by the Truk Stop unit. When the ICC bar moves upward, the motor is activated and the hook moves up with the ICC bar.

76. During Mr. Erlandsson's cross-examination, the following chart (PTX-136) was developed with respect to Claims 1, 2, 3, 8, and 12:

CLAIM PART	KELLEY COLOR	RITE-HITE COLOR	'847 PATENT	TRUK STOP
FIRST MEANS				
First Member	Light Blue	Brown	Frame	Frame
Second Member	Dark Blue	Orange	Slide	Slide
SECOND MEANS	Yellow	Yellow	Hook Assembly	Hook Assembly
THIRD MEANS				
First Element	Dark Red	Green	Pawl	Pinion & Worm
Second Element	Light Red	Purple	Rachet	Rack
BIASING FORCE	Orange	Blue	Spring	Spring

This chart shows the direct correlation of the '847 patent claim elements and the Truk Stop elements.

77. The Truk Stop device also has a reversible motor that is part of the retaining means. Kelley argued at the trial that its use of a rack and pinion, where the pinion is "driven" up the rack by a motor, avoids infringement of the asserted claims because the third means for releasably retaining the hook in an operative mode as recited in the claims did not cover the Kelley device. Kelley argued further that because a secondary objective of the Rite-Hite patent is to provide a device that does not require an electrical power source to operate, the claims are thereby limited to manual devices. The Court does not find either of Kelley's arguments persuasive.

78. First, the broader claims that are asserted here are not, in any way, limited to a ratchet and pawl. In fact, "means plus function" language is used which is directed to a desired result, i.e., "third means for releasably retaining said second means in an operative mode." During the trial, Kelley's expert witness continued to apply the doctrine of equivalents test with respect to interpreting means plus function language. This is not the proper test. Rather, to interpret these functional claims, reference must be made to the last paragraph of 35 U.S.C. § 112. That paragraph states that the patentee is entitled to a claim covering the means described in the specification and equivalents that perform the stated function. The rack and pinion is interchangeable with a ratchet and pawl and is the clear equivalent of a ratchet and pawl for releasably retaining the hook in its operative position. *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 976 (Fed.Cir.1985). To hold otherwise would nullify § 112. *D.M.I., Inc. v. Deere & Co.*, 755 F.2d 1570, 1574 (Fed.Cir.1985).

79. This finding, with respect to the scope of the "means plus function" language, is buttressed by the fact that other claims in the '847 patent, which are not asserted here, specifically recite a ratchet and pawl. To limit the broader claims, in the way Kelley asked this Court to do, would go against a rational construction of the claims.

80. Furthermore, the claims are not limited to a manual device because only one of many objectives set forth in the specification is to provide a device that is free of an electrical source. Nonasserted claims specifically recite manual operation, and thus such a limitation cannot be read into the asserted claims.

81. Even without literal infringement, the Court finds that Kelley's device infringes the asserted claims under the doctrine of equivalents. This is so because the Kelley device performs the same function in substantially the same way to achieve substantially the same result as the claimed subject matter of the '847 patent.

82. At the time Kelley undertook the development of its truck restraint, it requested its patent counsel to make a search of all Rite-Hite patents dealing with truck restraints, and Kelley received a written opinion from counsel that all of the Rite-Hite patents then issued were limited to a pivoting hook. Based on this opinion, Kelley proceeded to develop a truck restraint that did not use a pivoting hook in order to avoid conflict with the Rite-Hite patents. The '847 patent did not issue until almost a year after Kelley began to market its Truk Stop truck restraint. Kelley never made an infringement search beyond the six patent numbers that Kelley found listed on the Rite-Hite device's serial number tags. Nor did Kelley ever cause its counsel to make an infringement search to determine what patents might exist or might be infringed by its Truk Stop restraint. Furthermore, Kelley never obtained an opinion from its counsel on the probability or possibility of patents issuing on the MDL-55.

J. ***The Unfair Competition Claims and Counterclaims***

83. On March 16, 1984, the Court preliminarily enjoined Kelley from using its Truk-Stop promotional motion picture, that motion picture having been found to be misleading in its depiction of Kelley's and Rite-Hite's truck restraining devices.

84. Based on the testimony of Robert Kuhns that Kelley has taken the original motion picture off the market, has replaced it with a film loop which is acceptable to Rite-Hite, and has no intention of showing or using the original motion picture that this Court found misleading, the Court finds there is no need for any injunctive relief at this time and that the preliminary injunction may be dissolved.

85. At trial, the parties introduced evidence on their respective claims and counterclaims of unfair competition against each other. This evidence failed to establish any need for other injunctive relief or money damages on the part of either party.

II. CONCLUSIONS OF LAW

K. *Source of Applicable Law*

86. This court has jurisdiction over the parties and the subject matter, and venue is proper. The law applicable here is that of the United States Court of Appeals for the Federal Circuit and its predecessor courts, the Court of Customs and Patent Appeals and the Court of Claims. *South Corp. v. United States*, 690 F.2d 1368, 1369, 215 U.S.P.Q. 657 (Fed.Cir.1982).

L. *Validity of Patents*

87. Section 282 of the United States patent laws (35 U.S.C. § 282) explicitly states that a patent shall be presumed valid, and this presumption attaches to each claim independently of the other claims. *Jones v. Hardy*, 727 F.2d 1524, 1528, 220 U.S.P.Q. 1021, 1024 (Fed.Cir.1984). Moreover, this presumption encompasses presumptions of novelty, nonobviousness, and utility — each of which are presumed to be present. *Structural Rubber Products Co. v. Park Rubber Co.*, 749 F.2d 707, 714, 223 U.S.P.Q. 1264, 1269 (Fed. Cir.1984). This statutory presumption of validity places the burden of proving facts establishing invalidity by clear and convincing evidence on the party asserting invalidity. *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 894, 221 U.S.P.Q. 669, 674 (Fed.Cir.1984), *cert. denied*, 469 U.S. 857, 105 S.Ct. 187, 83 L.Ed.2d 120 (1984).

M. *Nonobviousness*

88. It is a condition of patentability that the invention be nonobvious, 35 U.S.C. § 103. The statutory presumption of patent validity carries with it a presumption of nonobviousness. *Structural Rubber Products Co*, 749 F.2d at 714.

89. In *Graham v. John Deere & Co.*, 383 U.S. 1, 17, 86 S.Ct. 684, 693-94, 15 L.Ed.2d 545, 148 U.S.P.Q. 459, 467 (1966), the Court mandated, in determining obviousness/nonobviousness

under § 103 of the patent laws, that factual inquiries be made into: (1) the scope and content of the prior art; (2) the level of ordinary skill in the pertinent art at the time the invention was made; (3) the differences between the claimed invention and the prior art; and (4) objective evidence of nonobviousness, e.g., long-felt needs, commercial success, failure of others, copying, and unexpected results. *Perkin-Elmer Corp.*, 732 F.2d at 894; *Jones*, 727 F.2d at 1527, 1529-31; *Environmental Designs, Ltd. v. Union Oil Co.*, 713 F.2d 693, 695-97, 218 U.S.P.Q. 865, 867-69 (Fed.Cir.1983), *cert. denied*, 464 U.S. 1043, 104 S.Ct. 709, 79 L.Ed.2d 173 (1984). The invention of Claims 1, 2, 3, 8, 12, and 13 of the '847 patent would not have been obvious as a whole to a person of ordinary skill in the art in the spring of 1981.

a. *The Invention As a Whole Compared to the Prior Art*

90. Section 103 requires the consideration of whether the invention would or would not have been obvious "as a whole" to one of ordinary skill in the art to which that subject matter pertains at the time the invention was made. *Perkin-Elmer Corp.*, 732 F.2d at 894; *Jones*, 727 F.2d at 1529. Failure to consider the claimed invention "as a whole" would be an error of law. *W.L. Gore & Associates Inc. v. Garlock, Inc.*, 721 F.2d 1540, 220 U.S.P.Q. 303, 309 (Fed.Cir.1983), *cert. denied*, 469 U.S. 851, 105 S.Ct. 172, 83 L.Ed.2d 107 (1984). In this case, there was no real vehicle restraint art or industry when Rite-Hite introduced its first Dok-Lok restraint. The "art" consisted of the work of Rite-Hite's development team as exemplified in Rite-Hite's earlier patents.

91. Factors that are considered in determining the level of "ordinary skill in the art" may include: (1) the educational level of one of ordinary skill; (2) the types of problems encountered in the art; (3) the prior art solution to those problems; (4) the rapidity with which innovations are made; and (5) the sophistication of the technology. Not all of these factors need be considered in every case, and often one or more factors may predominate or are given

more weight in a particular case. *Environmental Designs*, 713 F.2d at 696-97.

92. Additionally, although it is proper to note the difference existing between the claimed invention and the prior art, because that difference may serve as one element in determining the obviousness/nonobviousness issue, it is improper merely to consider the difference as the invention. The "difference" may appear to be slight, but it can be the key to success and advancement in the art. Furthermore, it is irrelevant in determining obviousness that all or all other aspects of the claimed invention are well known, in a piecemeal manner, in the art, since virtually every patent can be described as a "combination patent" or a "combination" of old elements. *Jones*, 727 F.2d at 1528. There is absolutely no basis in the law for treating combinations of old elements differently in determining patentability. *Fromson*, 755 F.2d at 1555-56.

93. Moreover, the mere fact that the disclosures or teachings of the prior art can be retrospectively combined for purposes of evaluating the obviousness/nonobviousness issue does not make the combination obvious unless the art also suggested the desirability of the combination or the inventor's beneficial results or the advantage to be derived from combining the teachings. *Fromson*, 755 F.2d at 1556; *In re Sernaker*, 702 F.2d 989, 995-96, 217 U.S.P.Q. 1, 6-7 (Fed.Cir.1983); *In re Imperato*, 486 F.2d 585, 587, 179 U.S.P.Q. 730, 732 (CCPA 1973). There is no such suggestion in this case.

94. In *Lindemann Maschinenfabrik GMBH v. American Hoist and Derrick Co.*, 730 F.2d 1452, 221 U.S.P.Q. 481 (Fed.Cir.1984), a patent for hydraulic scrap shears was held valid and nonobvious even though it specifically stated in the specification that it disclosed and claimed a combination of features previously used in two separate prior devices. The Court explained:

> Nothing in the references alone or together suggests the claimed invention as a solution to the problem of crushing

> rigidly massive scrap. There was nothing whatever of record, therefore, to support the district court's statement that the claimed machine possessed "another known procedure operating in a known manner to produce a known result" or its conclusion that Lindemann (the inventor) knew . . . that a small sidewall ram could most economically process large scrap.

Lindemann, 730 F.2d at 1462.

95. Thus, even if all the elements recited in the claims of the '847 patent were in existence at the time of the invention, the fact remains that the combination of these elements for the purpose as set forth in the claims is nowhere suggested and is a nonobvious advance in the art of vehicle restraints.

b. *The Advance in the Art Provided by the Invention in Suit*

96. The objective evidence of nonobviousness discussed by the Court in *Graham* may be the most pertinent, cogent, probative, and revealing evidence available to aid in reaching a conclusion on the obviousness/nonobviousness issue and is of substantial significance in this case. *Simmons Fastener Corp. v. Illinois Tool Works, Inc.*, 739 F.2d 1573, 1575-76, 222 U.S.P.Q. 744, 746-47 (Fed.Cir.1984), *cert. denied*, 471 U.S. 1065, 105 S.Ct. 2138, 85 L.Ed.2d 496 (1985). In fact, such evidence of the objective considerations must be considered as part of all the evidence in all cases. *In re Piasecki*, 745 F.2d 1468, 1471, 223 U.S.P.Q. 785 (Fed.Cir.1984). These tests include:

> (1) Did the patented invention fulfill a long-felt need in the industry to which it applied? *Ortho Pharmaceutical Corp. v. American Hospital Supply Corp.*, 534 F.2d 89, 93, 190 U.S.P.Q. 397, 400-01 (7th Cir.1976); *Rex Chainbelt, Inc. v. General Kinematics Corp.*, 363 F.2d 336, 337, 150 U.S.P.Q. 319, 320 (7th Cir.1966).

(2) Did others try and fail to meet the need that the invention ultimately satisfied?

(3) Did the patented invention meet with substantial success upon its introduction to the market? *Rex Chainbelt, Inc.*, 363 F.2d at 337; *Continental Can Co. v. Anchor Hocking Glass Corp.*, 362 F.2d 123, 124, 150 U.S.P.Q. 1, 2 (7th Cir.1966).

(4) Did the accused infringer recognize that the invention was truly meritorious? *AMP, Inc. v. Molex Products Co.*, 329 F.Supp. 1364, 1371, 170 U.S.P.Q. 2, 7 (N.D.Ill.1971).

97. Evidence may often establish that an invention which appeared at first blush to have been obvious was not in view of the secondary considerations. *Fromson*, 755 F.2d at 1556. When a structure such as the '847 patent goes undiscovered for years and then enjoys substantial commercial success, there is strong evidence of unobviousness.

98. One cannot escape the fact that the solutions to dock hazards by preventing vehicle separation eluded the industry for years. Rite-Hite's invention claimed in the '847 patent satisfied a long and widely-felt need, and Rite-Hite succeeded where others, including Kelley prior to copying, had failed. *Atlas Powder Co. v. E.I. DuPont de Nemours & Co.*, 750 F.2d 1569, 1574-76, 224 U.S.P.Q. 409 (Fed.Cir.1984); *Lang v. Prescon Corp.*, 545 F.Supp. 933, 945-46, 217 U.S.P.Q. 839 (D.Del.1982); *Tracor, Inc. v. Hewlett-Packard Co.*, 519 F.2d 1288, 1306, 186 U.S.P.Q. 468 (7th Cir.1975). At the time Rite-Hite's claimed invention was made, no known device accomplished the same results in a similar manner. Rite-Hite's invention, in fact, satisfied this particular need in a unique manner. That is invention. *Jones*, 727 F.2d at 1531.

99. One of the advantages of Rite-Hite's invention is that it uses a simple means to maintain the restraint in the elevated, operative position. The '847 patent discloses a ratchet and pawl as one means to retain the hook in its upper position. But none of the asserted claims recite a ratchet and pawl or even just hook retaining means.

Rather, a combination of elements coacting in a novel and unobvious manner are recited. The advantage of the combination went unrecognized for years by the industry, though ratchets and pawls, as well as racks and pinion gears, were well known. This supports the unobviousness of the patent in suit. *Jones*, 727 F.2d at 1530. If anything, Kelley's reliance on earlier devices in the vehicle industry, such as an automobile jack, as well as its own patent for its Panic Stop using ratchet and pawl combinations, shows that no one before Rite-Hite, even with the art before him, ever thought of the combination of the '847 patent.

100. The imitation of the patented invention by an alleged infringer is strong evidence of what it thinks of the patent in suit and is persuasive of what the rest of the world ought to think. *Anderson Co. v. Sears, Roebuck & Co.*, 165 F.Supp. 611, 623, 119 U.S.P.Q. 236, 244 (N.D.Ill.1958), *modified on other grounds* 265 F.2d 755, 121 U.S.P.Q. 161 (7th Cir.1959). Here, Kelley's failure to develop a vehicle restraint prior to having access to Rite-Hite's vehicle restraint and Kelley's adoption of the vertically moving hook and other elements claimed in the '847 patent provide additional evidence of unobviousness. *Lang*, 545 F.Supp. at 945-46. In fact, Kelley's vehicle restraint, which was identified by Kelley's personnel as "Kelley's version of the Dok-Lok" (PTX-36), was nonexistent until Kelley obtained literature relating to Rite-Hite's vehicle restraint and actually inspected, disassembled, and photographed the Rite-Hite product. *General Monitors, Inc. v. Mine Safety Appliances Co.*, 211 U.S.P.Q. 1126, 1140 (C.D.Cal.1981). Indeed, the imitation and copying by Kelley was strong evidence that Kelley believed that invention lay in the Rite-Hite product. *Ackermans v. General Motors Corp.*, 202 F.2d 642, 645, 96 U.S.P.Q. 281 (4th Cir.1953), *cert. denied*, 345 U.S. 996, 73 S.Ct. 1139, 97 L.Ed. 1403 (1953).

101. A further indicium of nonobviousness was the evidence that Rite-Hite's invention has also had considerable commercial success. Rite-Hite has sold well over 1,800 MDL-55 restraints

falling within the asserted claims of the '847 patent (PTX 81). There is no question that a substantial cause of this commercial success is the claimed configuration. *Fromson*, 755 F.2d at 1556-58; *Magnavox Company v. Chicago Dynamic Industries*, 201 U.S.P.Q. 25, 27 (N.D.Ill.1977).

N. *The Prior Art Does Not Show the Claimed Invention*

102. To assert that a patent claim is anticipated under 35 U.S.C. § 102, a party must demonstrate identity of invention. *Kalman v. Kimberly-Clark Corp.*, 713 F.2d 760, 771 (Fed.Cir.1983), *cert. denied*, 465 U.S. 1026, 104 S.Ct. 1284, 79 L.Ed.2d 687 (1984). The determination that a claimed invention is "anticipated" under § 102 is a factual determination. *Lindemann Maschinenfabrik GMBH v. American Hoist & Derrick Co.*, 730 F.2d 1452, 1458 (Fed.Cir.1984).

103. One who seeks such a finding of anticipation must show that each and every element of the patent claim is found, as arranged in the claim, either expressly described or implicitly described under appropriate principles of inherency, in a *single* prior art reference, or that the claimed invention was previously known or embodied in a single prior art reference, or that the claimed invention was previously known or embodied in a single prior art device or practice. *Lindemann Maschinenfabrik GMBH*, 730 F.2d at 1458. "Unless all of the same elements are found in exactly the same situation and united in the same way to perform an identical function, there is no anticipation." *National Business Systems, Inc. v. AM International, Inc.*, 546 F.Supp. 340, 350 (N.D.Ill.1982), *aff'd*, 743 F.2d 1227 (7th Cir.1984), *cert. denied*, 471 U.S. 1110, 105 S.Ct. 2345, 85 L.Ed.2d 861 (1985).

O. *Kelley's Infringement of the '847 Patent*

104. The United States patent laws state that whoever without authority makes, uses, or sells any patented invention within the United States during the term of the patent infringes the patent. 35

U.S.C. § 271(a). The patent owner has the burden of proving infringement by a preponderance of the evidence. This burden extends to infringement under the doctrine of equivalents as well as to literal infringement. *Hughes Aircraft Co. v. United States*, 717 F.2d 1351, 1361, 219 U.S.P.Q. 473 (Fed.Cir.1983).

105. The issue of infringement raises at least two questions: (1) what is patented,[2] and (2) has what is patented been made, used, or sold by another. The first is a question of law; the second is a question of fact. *SSIH Equipment S.A. v. U.S. International Trade Commission*, 718 F.2d 365, 376, 218 U.S.P.Q. 678, 688 (Fed.Cir.1983); *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565, 1569, 219 U.S.P.Q. 1137, 1140 (Fed.Cir.1983). In this case, Rite-Hite obtained a patent claiming a vehicle restraint having a combination of elements performing recited functions. The Truk Stop device, made and sold by Kelley, infringes the asserted claims.

a. *Literal Infringement*

106. If an allegedly infringing product falls literally within the claim when the words are given their proper meaning, infringement is made out, and that is the end of the inquiry. *Graver Tank and Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 607, 70 S.Ct. 854, 855-56, 94 L.Ed. 1097, 85 U.S.P.Q. 328 (1950).

107. The question of infringement is resolved by comparing the accused device with the claims of the patent, not with the structure described in the patent or the patentee's commercial device. *Martin v. Barber*, 755 F.2d 1564, 1567, 225 U.S.P.Q. 233, 235 (Fed.Cir.1985). The claims of a patent are to be construed in light of the specification, and both are to be read with a view to ascertaining the invention. *United States v. Adams*, 383 U.S. 39,

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[2] In a patent infringement action, patent claims measure the invention and define the boundaries of patent protection. *Reese v. Elkhart Welding & Boiler Works Inc.*, 447 F.2d 517, 171 U.S.P.Q. 129 (7th Cir.1971).

49, 86 S.Ct. 708, 713, 15 L.Ed.2d 572, 148 U.S.P.Q. 479, 482 (1966). Each claim must be considered as defining a separate invention. *Jones*, 727 F.2d at 1528. In construing or interpreting a claim, a whole host of facts (e.g., patent disclosure, the prosecution history in the Patent and Trademark Office, the prior art and comparison with other claims) may be considered. *Graham*, 383 U.S. at 32-33, 86 S.Ct. at 701; *Fromson*, 720 F.2d at 1569-71.

(1) *"Means Plus Function" Claims*

108. The independent claims in the '847 patent utilize "means plus function" language. Title 35 U.S.C. § 112 is used to interpret these functional claims and states:

> An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material or acts described in the specification and *equivalents thereof.* [Emphasis added.]

To interpret the statute as limited to a particular means set forth in the specification would be to nullify that provision of § 112. The patentee's claim covers all combinations which utilize as the stated means the structure described in the specification for performing the stated function and also all combinations that utilize any structure which is the equivalent of that described structure insofar as it performs the stated function. *D.M.I., Inc. v. Deere & Co.*, 755 F.2d 1570, 1574 (Fed.Cir.1985). The Court in *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 975 (Fed.Cir.1985), recognized that a "means plus function" claim is construed "to cover *both* the disclosed structure *and* equivalents thereof" for performing the stated function. The Court in *Palumbo* added that an important factor in the determination of equivalents is whether persons reasonably skilled in the art would know of the interchangeability of an ingredient not contained in the patent with one that was. *Palumbo*, at 977.

109. In construing such a claim, a number of factors may be considered: (1) the language of the claim, (2) the patent specification, (3) the prosecution history of the patent, (4) other claims in the patent, and (5) expert testimony. Once these factors are weighed, the scope of the "means" claim may be determined, and whether the Kelley device is a § 112 equivalent of the described embodiment is a question of fact. *Palumbo*, at 975-76. Here, looking to the prosecution history of the '847 patent, the amendments to the claims and description following the citation of the Taylor, et al., patent makes it clear that the scope of equivalents for the third means is broad.

110. In addition, Kelley cannot escape infringement by the mere fact that its Truk Stop restraint is more or less efficient than the subject matter Rite-Hite claimed, or performs additional functions or adds features or is an improvement. *Amstar Corp. v. Envirotech Corp.*, 730 F.2d 1476, 1481-82, 221 U.S.P.Q. 649, 653 (Fed.Cir.1984), *cert. denied*, 469 U.S. 924, 105 S.Ct. 306, 83 L.Ed.2d 240, 224 U.S.P.Q. 616 (1984); *Radio Steel & Manufacturing Co. v. MTD Products, Inc.*, 731 F.2d 840, 848, 221 U.S.P.Q. 657 (Fed.Cir. 306, 224 U.S.P.Q. 616 (1984); *Radio Steel & Manufacturing Co. v. MTD Products, Inc.*, 731 F.2d 840, 848, 221 U.S.P.Q. 657 (Fed.Cir.1984), *cert. denied*, 469 U.S. 831, 105 S.Ct. 119, 83 L.Ed.2d 62 (1984); *Atlas Powder Co.*, 750 F.2d at 1579-81. Nothing in the claims of Rite-Hite's patent limit the invention to a manual device or one with communications apparatus.

111. Furthermore, the broader claims asserted here cannot be construed to be limited to a ratchet and pawl as the "third means," or to manual operation. This law is applicable here because Claims 5, 6, and 7 of the '847 patent, which are not asserted, recite that the third means includes a ratchet and pawl, and Claims 4 and 9 recite manual operation. These narrow claim limitations cannot be read into the broader claims to avoid infringement. *D.M.I.*, 755 F.2d at 1574.

b. *Doctrine of Equivalents*

112. Kelley cannot avoid a finding of infringement by arguing that its device falls outside a literal reading of the claims of the '847 patent. Although the claims of a patent are the measure of the protected invention, the judicially created "doctrine of equivalents" adds latitude and breadth to the application of claim language in order to prevent the infringer from perpetrating "a fraud on a patent." *Graver Tank and Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 608, 70 S.Ct. 854, 856, 94 L.Ed. 1097, 85 U.S.P.Q. 328 (1950). The doctrine of equivalents is designed to protect a patentee, such as Rite-Hite, from an infringer, such as Kelley, who appropriates the invention even if the infringer avoids the literal language of the claims. As such, a finding of infringement is in order here because Kelley's device performs the same function in substantially the same way to achieve substantially the same result as the claimed invention. *Atlas Powder Co.*, 750 F.2d at 1579-81; *Sanitary Refrigerator Co. v. Winters*, 280 U.S. 30, 42, 50 S.Ct. 9, 13, 74 L.Ed. 147 (1929); *Graver Tank*, 339 U.S. at 607, 70 S.Ct. at 855-56. Under this doctrine, Rite-Hite's claims are infringed by Kelley's imitation even if Kelley did not precisely clone every literal detail of Rite-Hite's claimed invention.

113. The range of equivalents to which a patent claim is entitled is on a sliding scale depending on the nature of the invention. *John Zink Co. v. National Airoil Burner Co.*, 613 F.2d 547, 555, 205 U.S.P.Q. 494 (5th Cir.1980); *Julien v. Gomez & Andre Tractor Repairs, Inc.*, 438 F.Supp. 763, 766, 196 U.S.P.Q. 224 (M.D. La.1977), *aff'd*, 607 F.2d 1004 (5th Cir.1979). In particular, when a patented invention has had "significant commercial success" or the patent is of the "pioneer type," the patent claims are to be construed liberally and are not to be limited to the identical means and mode of operation shown in the patent. *Graver Tank*, 339 U.S. at 608-09, 70 S.Ct. at 856; *King-Seeley Thermos Co. v. Reynolds Products, Inc.*, 322 F.Supp. 713, 720 (N.D.Ill.1970); *Chicago Patent Corp. v. Genco, Inc.*, 124 F.2d 725, 728 (7th Cir.1941). The

broadest protection is given to "a patent covering a function never before performed, a wholly novel device, or one of such novelty and importance as to mark a distinct step in the progress of the art." *Ziegler v. Phillips Petroleum Co.*, 483 F.2d 858, 870, 177 U.S.P.Q. 481 (5th Cir.1973), *cert. denied*, 414 U.S. 1079, 94 S.Ct. 597, 38 L.Ed.2d 485, 180 U.S.P.Q. 1 (1973). The Rite-Hite patent is a pioneer patent because it claims a vehicle restraint that functions in a novel manner, unlike any of the earlier restraints of Rite-Hite or anyone else.

114. Broad protection is given not only to so-called pioneer patents, but also patents that make a substantial contribution to an existing art and patents that consist of a combination of old ingredients that produce new and useful results. *Graver Tank*, 339 U.S. at 608, 70 S.Ct. at 856; *Julien*, 438 F.Supp. at 766. Accordingly, the claims of a patent are entitled to a range of equivalents commensurate with the scope of the invention. *Ziegler*, 483 F.2d at 869. In this instance, because of the significant advance in the art presented by the Rite-Hite '847 patent and the manifest commercial success, the claims are given the broadest possible interpretation.

115. In addition, the mere use by Kelley of a component that may be more sophisticated than that disclosed in the specific embodiment of the Rite-Hite patent does *not* allow Kelley to escape an appropriate range of equivalents and thereby avoid infringement of the claimed invention. *Hughes Aircraft Co.*, 717 F.2d at 1365-66; *Atlas Powder Co.*, 750 F.2d at 1579-81; *Bendix Corp. v. United States*, 600 F.2d 1364, 1382, 220 Ct.Cl. 507, 204 U.S.P.Q. 617, 631 (1979).

P. *Rite-Hite's Right to Recover Prejudgment Interest*

116. In addition to the other relief recoverable for infringement of its patent, the patentee should recover prejudgment interest as provided in 35 U.S.C. § 284 in order to prevent the infringer from having the benefit of the use of the money which it would have

been paying in royalties. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983).

117. The asserted claims of the '847 patent are not invalid and are infringed by Kelley by making and selling the Truk Stop vehicle restraint.

Q. *Multiplied Damages and Attorneys' Fees Are Not Warranted*

118. Under 35 U.S.C. § 284, multiplied damages up to three times the amount found or assessed may be awarded by the Court. Kelley's activities here do not warrant such an award.

119. The activities of Kelley and the circumstances of this case are not sufficiently exceptional to prompt an award of attorneys' fees under 35 U.S.C. § 285.

III. STAY OF EXECUTION

120. Kelley has moved for a stay of injunction pending appeal. The motion is technically premature because a notice of appeal has not yet been filed, but the Court has the authority to grant a stay conditioned on the movant's filing of a notice of appeal within a specified period.

121. Under Fed.R.Civ.P. 62(c), the Court may in its discretion suspend a final judgment granting an injunction if the party seeking suspension of the judgment pending appeal can show: (1) that it is likely to prevail on the merits on appeal; (2) that unless a stay is granted it will suffer irreparable injury; (3) that a stay would not substantially harm other parties to the litigation; and (4) that a stay is in the public interest. *Adams v. Walker*, 488 F.2d 1064, 1065 (7th Cir.1973); *Decker v. U.S. Department of Labor*, 485 F.Supp. 837, 844 (E.D.Wis.1980). A showing of absolute probability of success on the merits on appeal need not be made if the injunction would destroy the status quo, irreparably harming the appellant, and granting of the stay will cause only slight harm to the appellee.

Providence Journal Co. v. Federal Bureau of Investigation, 595 F.2d 889 (1st Cir.1979).

122. Upon consideration of the foregoing factors and the affidavit of Kelley which has been submitted *in camera*, I conclude that a stay of the injunction without bond should be allowed pending Kelley's appeal.

ORDER

IT IS THEREFORE ORDERED that the defendant Kelley Company, Inc., its officers, employees, agents, and those in privity with them are enjoined from infringing U.S. Patent 4,373,847 by the manufacture or sale of vehicle restraints sold under the trademark Truk Stop and embodying the claimed vehicle restraint pursuant to 35 U.S.C. § 283, and that Kelley is liable to the plaintiffs for damages, including prejudgment interest, as a result of its infringement.

IT IS FURTHER ORDERED that Kelley's motion for a stay of the above-described injunction pending appeal is granted pursuant to Fed.R. Civ.P. 62(c), but further, this stay shall expire within thirty days of the filing date of this decision and order unless a notice of appeal is filed within that period.